

GAO

January 2003

High-Risk Series

Federal Real Property



This Series

This report on federal real property is part of GAO's high-risk series, first issued in 1993 and updated periodically. This series identifies areas at high risk due to either their greater vulnerabilities to waste, fraud, abuse, and mismanagement or major challenges associated with their economy, efficiency, or effectiveness. A companion series entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks* contains separate reports covering each cabinet department, most major independent agencies, and the U.S. Postal Service. The series also includes a governmentwide perspective on transforming the way the government does business in order to meet 21st century challenges and address long-term fiscal needs. A list of all of the reports in this series is included at the end of this report.



Highlights of a high-risk area discussed in the GAO report entitled High-Risk Series: Federal Real Property (GAO-03-122)

Why Area Is High Risk

- Long-standing problems with excess and underutilized real property, deteriorating facilities, unreliable real property data, and costly space challenges are shared by several agencies. These factors have multibillion-dollar cost implications and can seriously jeopardize mission accomplishment.
- Federal agencies face many challenges securing real property due to the threat of terrorism.

What Remains to Be Done

There is a need for a comprehensive and integrated real property transformation strategy that could identify how best to realign and rationalize federal real property and dispose of unneeded assets; address significant real property repair and restoration needs; develop reliable, useful real property data; resolve the problem of heavy reliance on costly leasing; and minimize the impact of terrorism on real property.

An independent commission or governmentwide task force may be needed to develop this strategy. If resulting actions address the problems and are effectively implemented, agencies will be better able to recover asset values, reduce operating costs, improve facility conditions, enhance safety and security, and achieve mission effectiveness.

www.gao.gov/cgi-bin/getrpt?GAO-03-122.

For additional information about this high-risk area, click on the link above or contact John H. Anderson, Jr. at (202) 512-2834 or AndersonJ@gao.gov.

HIGH-RISK SERIES

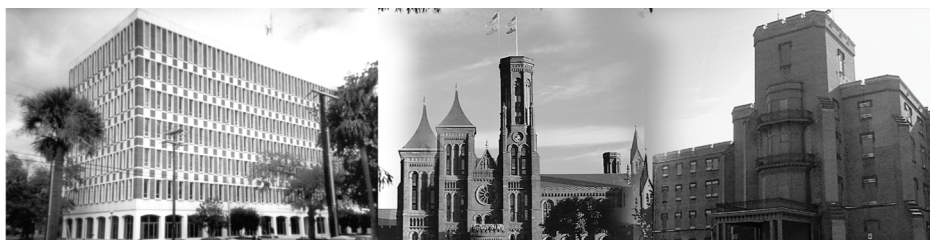
Federal Real Property

What GAO Found

Over 30 agencies control hundreds of thousands of real property assets worldwide, including facilities and land, which are worth hundreds of billions of dollars. Unfortunately, much of this vast, valuable portfolio reflects an infrastructure based on the business model and technological environment of the 1950s. Many of the assets are no longer effectively aligned with, or responsive to, agencies' changing missions and are therefore no longer needed. Further, many assets are in an alarming state of deterioration; agencies have estimated restoration and repair needs to be in the tens of billions of dollars. Compounding these problems are the lack of reliable governmentwide data for strategic asset management, a heavy reliance on costly leasing instead of ownership to meet new needs, and the cost and challenge of protecting these assets against potential terrorism.

To address these challenges, Congress and the administration have undertaken several efforts, including Defense Base Realignment and Closures Commissions, the President's Commission to Study Capital Budgeting, and various legislative initiatives. While some of these efforts and other work by individual real property-holding agencies have had some success, much remains to be done governmentwide. Furthermore, despite these efforts, the problems have persisted and have been exacerbated by competing stakeholder interests in real property decisions; various legal and budget-related disincentives to businesslike outcomes; the need for better capital planning among agencies; and the lack of a strategic, governmentwide focus on real property issues.

Given the persistence of the problems and related obstacles, we have added federal real property as a new high-risk area. Resolving these problems will require high-level attention and effective leadership by both Congress and the administration. Also, because of the breadth and complexity of the issues, the long-standing nature of the problems, and the intense debate that will likely ensue, current structures and processes may not be adequate to address the problems. Thus, there is a need for a comprehensive, integrated transformation strategy for real property. Realigning the government's real property, taking into account future workplace needs, will be critical to improving the government's performance and ensuring accountability within expected resource limits.



Sources (from left to right): Ernst & Young LLP, © 1996 Digital Stock, GAO.

Federal Real Property (from left to right): L. Mendel Rivers Building, Charleston, S.C.; Smithsonian Institution Building, Washington, D.C.; St. Elizabeths Hospital, Washington, D.C.

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United States General Accounting Office
Washington, D.C. 20548

January 2003

The President of the Senate
The Speaker of the House of Representatives

GAO's high-risk update is provided at the start of each new Congress in conjunction with a special series GAO has issued biennially since January 1999, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. This report, which discusses federal real property, is a companion to GAO's 2003 high-risk update, *High-Risk Series: An Update (GAO-03-119)*. These reports are intended to help the new Congress focus its attention on the most important issues and challenges facing the federal government.

Long-standing problems in the federal real property area include excess and underutilized property, deteriorating facilities, unreliable real property data, and costly space. These factors have multibillion-dollar cost implications and can seriously jeopardize the ability of federal agencies to accomplish their missions. Federal agencies also face many challenges securing real property due to the threat of terrorism. Given the persistence of these problems and various obstacles that have impeded progress in resolving them, GAO is designating federal real property as a new high-risk area.

This report should help the new Congress and the administration attend to these problems and improve agency practices in the real property area for the benefit of the American people. For additional information about this report, please contact John H. Anderson, Jr., Managing Director, Physical Infrastructure Issues, at (202) 512-2834. GAO contacts for real property issues at specific agencies are listed at the end of this report.

David M. Walker
Comptroller General
of the United States

Federal Real Property: A High-Risk Area

Over 30 federal agencies control hundreds of thousands of real property assets—including both facilities and land—in the United States and abroad. These assets are worth hundreds of billions of dollars. Unfortunately, much of this vast and valuable asset portfolio presents significant management challenges and reflects an infrastructure based on the business model and technological environment of the 1950s. Many assets are no longer effectively aligned with, or responsive to, agencies' changing missions and are therefore no longer needed. Furthermore, many assets are in an alarming state of deterioration; agencies have estimated restoration and repair needs to be in the tens of billions of dollars. Compounding these problems are the lack of reliable governmentwide data for strategic asset management, a heavy reliance on costly leasing instead of ownership to meet new space needs, and the cost and challenge of protecting these assets against potential terrorism.

To address these challenges, Congress and the administration have undertaken several efforts, including Defense Base Realignment and Closures Commissions and the President's Commission to Study Capital Budgeting. In addition, Congress, the Office of Management and Budget (OMB), and the General Services Administration (GSA) have also recognized the need for and developed legislative proposals in recent years that were designed to address some of the problems. While some of these efforts and other work by individual real property-holding agencies have had some success, much remains to be done governmentwide. In most cases, the effectiveness of current and planned initiatives has yet to be determined. Despite these efforts and the sincerity with which the federal real property community has embraced the need for reform, the problems have persisted and have been exacerbated by competing stakeholder interests in real property decisions, various legal and budget-related disincentives to businesslike outcomes, the need for better capital planning among real property-holding agencies, and the lack of a strategic, governmentwide focus on federal real property issues.

Given the persistence of these problems and various obstacles that have impeded progress in resolving them, we are designating federal real property as a new high-risk area. Resolving these long-standing problems will require high-level attention and effective leadership by Congress and the administration. Also, because of the breadth and complexity of the issues involved, the long-standing nature of the problems, and the intense debate about potential solutions that will likely ensue, current structures and processes may not be adequate to address these problems. Given this situation, there is a need for a comprehensive and integrated

transformation strategy for federal real property, and an independent commission or governmentwide task force may be needed to develop this strategy. Such a strategy could be based on input from agencies, the private sector, and other interested groups. The strategy should also reflect the lessons learned and leading practices of public and private organizations that have attempted to reform their real property practices. These organizations have recognized that real property, like capital, people, technology, and information, is a valuable resource that, if managed well, can support the accomplishment of their missions and the achievement of their business objectives. In addition, as these organizations are recognizing, the workplace of the future will differ from today's work environment.

For the federal government, technological advancements, electronic government, flexible workplace arrangements, changing public needs, opportunities for resource sharing, and security concerns will call for a new way of thinking about the federal workplace and the government's real property needs. Realigning the government's real property assets with agency missions, taking into account the requirements of the future federal role and workplace, will be critical to improving the government's performance and ensuring accountability within expected resource limits. If actions resulting from the transformation strategy comprehensively address the problems and are effectively implemented, agencies will be better positioned to recover asset values, reduce operating costs, improve facility conditions, enhance safety and security, and achieve mission effectiveness.

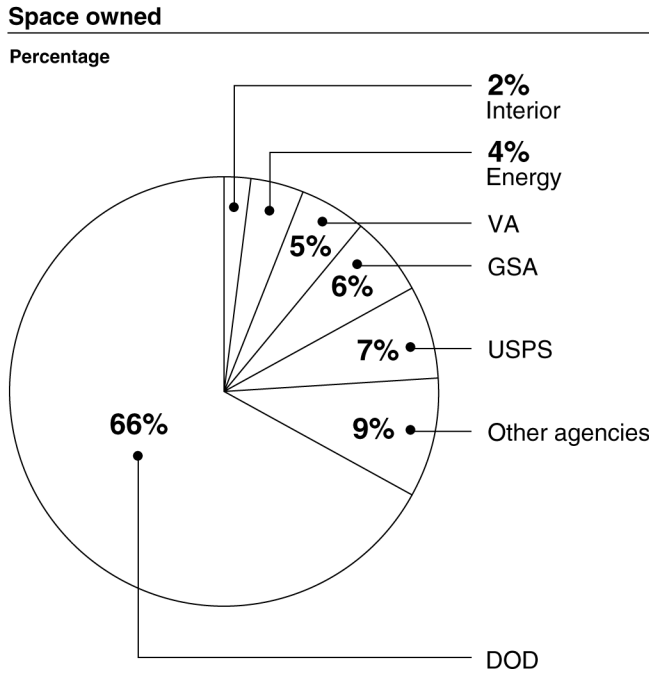
The Federal Real Property Environment

The federal real property environment has many stakeholders and involves a vast and diverse portfolio of assets that are used for a wide variety of missions. Real property is generally defined as facilities; land; and anything constructed on, growing on, or attached to land. According to the fiscal year 2001 financial statements of the U.S. government, the federal government's real property assets are worth about \$328 billion.¹ In terms of facilities, the latest available governmentwide data from GSA indicated that as of September 30, 2000, the federal government owned and leased approximately 3.3 billion square feet of building floor area worldwide.² As shown in figure 1, the Department of Defense (DOD), U.S. Postal Service (USPS), GSA, and Department of Veterans Affairs (VA) hold the majority of the owned facility space. Figure 1 also shows that DOD, the Department of State (State), GSA, and USPS lease the most space.

¹This value does not include stewardship assets, which are not reported on the government's balance sheet. These assets include wilderness areas, scenic river systems, monuments, defense facilities (including military bases), and national defense assets. Also, real property data contained in the financial statements of the U.S. government have been problematic. As discussed in more detail later, we were unable to express an opinion on the U.S. government's consolidated financial statements for fiscal year 2001.

²U.S. General Services Administration, *Summary Report of Real Property Owned by the United States Throughout the World*, (Washington, D.C.: June 2001); U.S. General Services Administration, *Summary Report of Real Property Leased by the United States Throughout the World*, (Washington, D.C.: June 2001). As discussed in more detail later, we have reported that the governmentwide real property data that GSA compiles—often referred to as the worldwide inventory—have been unreliable and of limited usefulness. However, these data provide the only available indication of the size and characteristics of the federal real property inventory.

Figure 1: Percentages of Federal Facility Space Owned and Leased Worldwide, by Agency

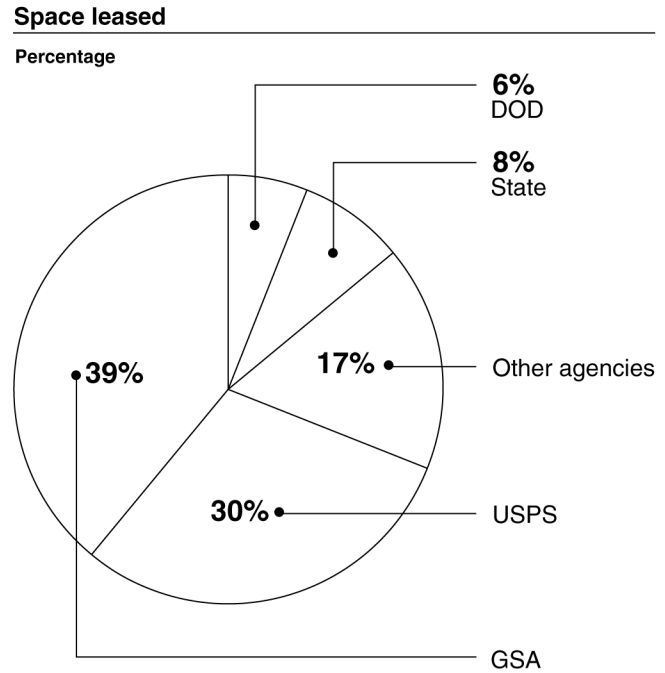


Source: GSA.

Notes: Total owned space is estimated at 3 billion square feet.

Numbers do not add to 100 due to rounding.

GAO representation of GSA data.



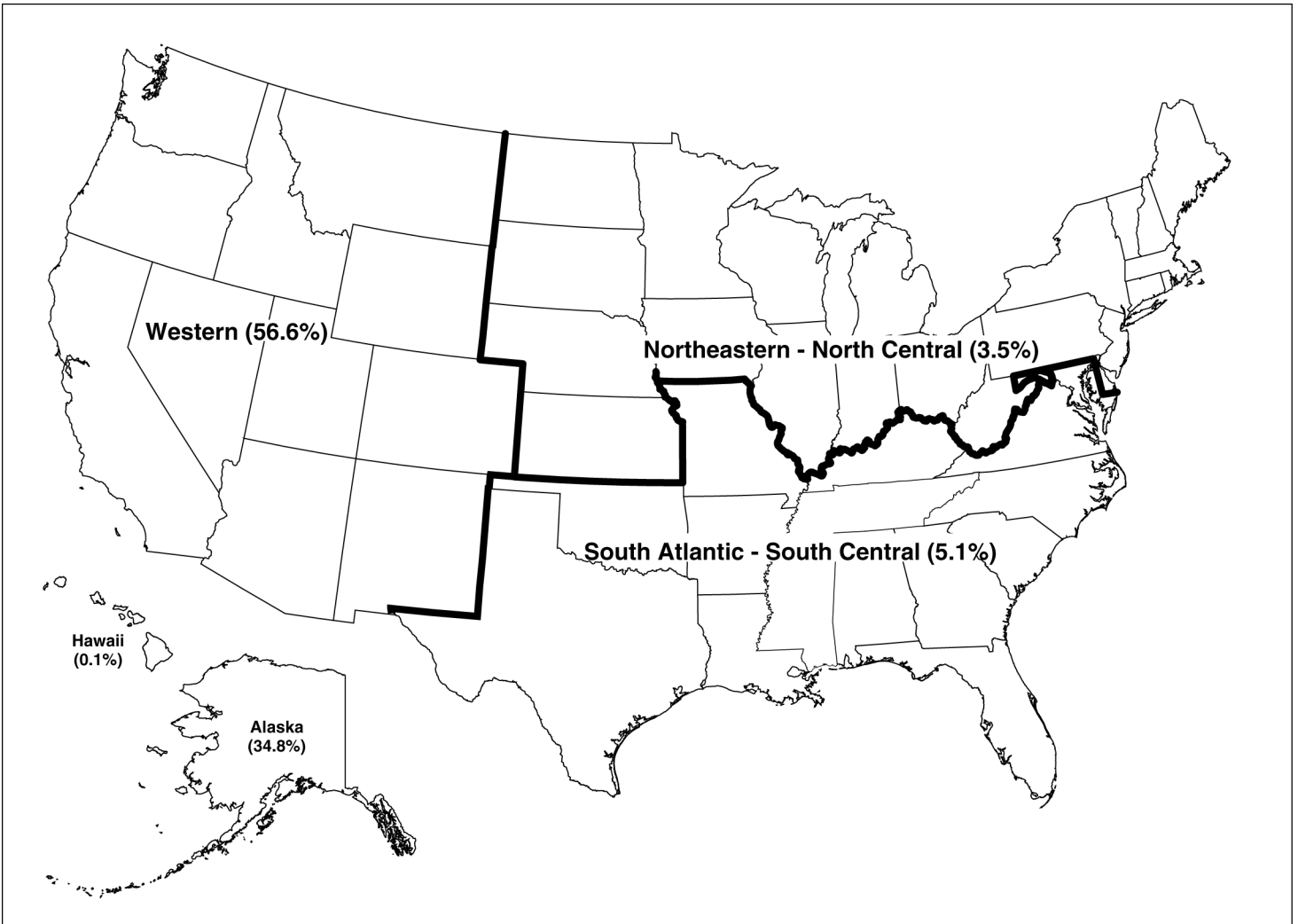
Source: GSA.

Notes: Total leased space is estimated at 347 million square feet.

GAO representation of GSA data.

The makeup of the federal government’s facilities reflects the diversity of agencies’ missions and includes military bases, office buildings, embassies, prisons, courthouses, border stations, laboratories, and park facilities. In terms of land, available governmentwide data suggest that the federal government owns roughly 636 million acres. The Departments of the Interior (DOI) and Agriculture (USDA) hold most of this land, which is about one-fourth of the total acreage of the United States. Figure 2 shows that the vast majority of federal land holdings are in the western United States.

Figure 2: Percentage of Federal Land Holdings in Major Regions of the United States



Source: GSA.

Notes: Numbers do not add to 100 due to rounding.

GAO presentation of GSA data.

Federal real property managers operate in a complex and dynamic environment. Numerous laws and regulations govern the acquisition, management, and disposal of federal real property. The Federal Property and Administrative Services Act of 1949, as amended (Property Act), is the law that generally applies to real property held by federal agencies; and GSA is responsible for the act's implementation.³ Agencies are subject to the Property Act, unless they are specifically exempted from it. Agencies may also have their own statutory authority related to real property. For example, VA has separate authority to enter into public-private partnerships to lease its property to nongovernmental entities; in turn, these entities develop, rehabilitate, or renovate the property.⁴ DOD has its own authority to outlease real property under its control for 5 years or longer, if a determination is made that doing so will promote national defense or be in the public interest.⁵ USPS, which is an independent establishment in the executive branch, is authorized to sell, lease, or dispose of property under its general powers.⁶ USPS is exempt from most federal laws dealing with real property and contracting.⁷ Agencies must also comply with numerous other laws related to real property. For example, the Stewart B. McKinney Homeless Assistance Act, as amended, provides that property that agencies have identified as unnecessary for mission requirements must first be made available to assist the homeless.⁸ The National Historic Preservation Act, as amended, requires agencies to manage historic properties under their control and jurisdiction and to consider the effects of their actions on historic preservation.⁹

³40 U.S.C. § 101 et. seq; the Property Act excludes certain types of property, such as public domain assets and land reserved or dedicated for national forest or national park purposes.

⁴38 U.S.C. §§ 8161-8169.

⁵10 U.S.C. § 2667.

⁶39 U.S.C. §§ 201 and 401; for the purposes of this discussion of real property issues, we are defining agencies to include other government entities such as USPS, an independent establishment in the executive branch.

⁷39 U.S.C. § 410.

⁸42 U.S.C. § 11411.

⁹16 U.S.C. § 470 et. seq.

Real property decisions draw considerable attention during congressional deliberations over federal appropriations. Members of Congress take a keen interest in federal facilities in their districts and in the economic impact of any decisions. In addition to Congress, OMB, and the real property-holding agencies, several other stakeholders also have an interest in how the federal government carries out its real property acquisition, management, and disposal practices. These stakeholders include state and local governments; business interests in the communities where the 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 tend to attract significant media attention, particularly when these practices are under scrutiny for waste and mismanagement.

The Federal Government Has Many Assets It Does Not Need

Despite significant changes in the size and mission needs of the federal government in recent years, the federal portfolio of real property assets in many ways still largely reflects the business model and technological environment of the 1950s. In the last decade alone, the federal government has reduced its workforce by several hundred thousand personnel, and several federal agencies have had major mission changes. With these personnel reductions and mission changes, the need for existing space, including general-purpose office space, has declined overall and necessitated the need for different kinds of space. At the same time, technological advances have changed workplace needs, and many of the older buildings are not configured to accommodate new technologies. Furthermore, the advent of electronic government is starting to change how the public interacts with the federal government. These changes will have significant implications for the type and location of property needed in the 21st century. For example, as we reported in July 2001, greater consideration could be given to locating government facilities in rural areas if there is an economic advantage to the government of doing so.¹⁰

¹⁰U.S. General Accounting Office, *Facilities Location: Agencies Should Pay More Attention to Costs and Rural Development Act*, GAO-01-805 (Washington, D.C.: July 31, 2001).

Some of the major real property-holding agencies have undergone significant mission shifts that have affected their real property needs. For example, after the Cold War, DOD's force structure was reduced by 36 percent. Despite four rounds of base closures, DOD projects that it still has considerably more property than it needs. The National Defense Authorization Act for Fiscal Year 2002,¹¹ which became law in December 2001, gave DOD the authority for another round of base realignments and military installation closures in 2005. In the mid-1990s, VA began shifting its role from being a traditional hospital-based provider of medical services to an integrated delivery system that emphasizes a full continuum of care with a significant shift from inpatient to outpatient services. Subsequently, VA has struggled to reduce its large inventory of buildings, many of which are underutilized or vacant. Although the Department of Energy (DOE) is no longer producing new nuclear weapons, it still maintains a facilities infrastructure largely designed for this purpose. Table 1 provides a summary of excess and underutilized property challenges at some of the major real property-holding agencies—DOD, VA, GSA, DOE, USPS, and State. Available data from GSA suggest that these agencies hold over 85 percent of the facilities—in terms of building floor area—in the federal portfolio.

Table 1: Excess Property Challenges at Some of the Major Real Property-Holding Agencies

Agency	Excess and underutilized property challenge
DOD	DOD still faces major infrastructure realignment challenges. After the Cold War, military force structure was reduced by 36 percent. Consequently, DOD was left with infrastructure it no longer needed for its military operations. Even with four rounds of base realignment and closures that reduced its holdings by 21 percent, DOD recognized that it still had some excess and obsolete facilities. ^a As a result, it implemented a centrally funded demolition program that succeeded in removing 62 million square feet of facilities during fiscal years 1998 to 2001, and that is slated to reach 80 million square feet by the end of fiscal year 2003. However, DOD believes that there is still more to be done, leading Congress to give the department the authority for another round of base realignment and closure in the fiscal year 2002 defense authorization act, scheduled for fiscal year 2005. GAO designated DOD infrastructure as a high-risk area in 1997, a designation that remains today. ^b
VA	VA has struggled to respond to asset realignment challenges due to its mission shift to outpatient, community-based services. ^c We reported in 1999 that VA had 5 million square feet of vacant space and that utilization will continue to decline. ^d VA has recognized that it has excess capacity and has an effort under way known as the Capital Asset Realignment for Enhanced Services (CARES) that is intended to address this issue. VA recently completed its initial CARES study involving consolidation of services among medical facilities in its Great Lakes Network (including Chicago) as well as expansion of services in other locations. VA identified 31 buildings that are no longer needed to meet veterans' health care needs in this network, including 30 that are currently vacant.

¹¹P.L. 107-107, 115 Stat. 1012, 1342 (2001).

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Agency	Excess and underutilized property challenge
GSA	GSA recognizes that it has many buildings that are not financially self-sustaining and/or for which there is not a substantial, long-term federal purpose. GSA is developing a strategy to address this problem. The L. Mendel Rivers Federal Building in Charleston, S.C., (see fig. 1) is a prime example of a highly visible, vacant federal building held by GSA. ^e
DOE	After shifting away from weapons production, DOE had 1,200 excess facilities totaling 16 million square feet, and the performance of its disposal program had not been fully satisfactory, according to DOE's Inspector General. ^f Facility disposal activities have not been prioritized to balance mission requirements, reduce risks, and minimize life-cycle costs. In some cases, disposal plans were in conflict with new facility requirements.
USPS	The issue of excess and underutilized property will need to be part of USPS's efforts to operate more efficiently. Facility consolidations and closures are likely to be needed to align USPS's portfolio more closely with its changing business model. ^g
State	State has taken steps to improve its disposal efforts; however, it still has a large number of unneeded properties that have not yet been sold. ^h Although State has taken steps to improve its disposal efforts and substantially reduce its inventory of unneeded properties, it reported that 92 properties were potentially available for sale as of September 30, 2001, with an estimated value of more than \$180 million. State has begun the disposal process for some of these properties. State will also need to dispose of additional facilities over the next several years as it replaces more than 180 vulnerable embassies and consulates for security reasons. Security also has become a primary factor in considering the retention and sale of excess property.

^eU.S. General Accounting Office, *Defense Infrastructure: Greater Management Emphasis Needed to Increase the Services' Use of Expanded Leasing Authority*, GAO-02-475 (Washington, D.C.: June 6, 2002).

^bU.S. General Accounting Office, *High-Risk Series: An Update*, GAO-01-263 (Washington, D.C.: Jan. 2001).

^cU.S. General Accounting Office, *VA Health Care: VA Is Struggling to Respond to Asset Realignment Challenges*, GAO/T-HEHS-00-91 (Washington, D.C.: Apr. 6, 2000).

^dU.S. General Accounting Office, *VA Health Care: Challenges Facing VA in Developing an Asset Realignment Process*, GAO/T-HEHS-99-173 (Washington, D.C.: July 22, 1999).

^eU.S. General Accounting Office, *Public-Private Partnerships: Pilot Program Needed to Demonstrate the Actual Benefits of Using Partnerships*, GAO-01-906 (Washington, D.C.: July 25, 2001).

^fDOE Office of the Inspector General, *Disposition of the Department's Excess Facilities*, DOE/IG-0550 (Washington, D.C.: Apr. 3, 2002).

^gU.S. General Accounting Office, *U.S. Postal Service: Deteriorating Financial Outlook Increases Need for Transformation*, GAO-02-355 (Washington, D.C.: Feb. 28, 2002).

^hU.S. General Accounting Office, *State Department: Sale of Unneeded Overseas Property Has Increased, but Further Improvements Are Necessary*, GAO-02-590 (Washington, D.C.: June 11, 2002).

The magnitude of the problem with underutilized or excess federal property puts the government at significant risk for lost dollars and missed opportunities. First, underutilized or excess property is costly to maintain. DOD estimates that it is spending \$3 billion to \$4 billion each year maintaining facilities that are not needed. In July 1999, we reported that vacant VA space was costing as much as \$35 million to maintain each year.¹² Costs associated with excess DOE facilities, primarily for security and maintenance, exceed \$70 million annually.¹³ It is likely that other agencies that continue to hold excess or underutilized property are also incurring significant costs for staff time spent managing the properties and on maintenance, utilities, security, and other building needs. Second, in addition to day-to-day operational costs, the government is needlessly incurring unknown opportunity costs, because these buildings and land could be put to more cost-beneficial uses, exchanged for other needed property, or sold to generate revenue for the government. For example, in 1998, we reported that VA could reduce expenditures by an estimated \$200 million over the next 10 years by consolidating hospital services into three locations in Chicago, Ill., rather than continuing to operate four underutilized locations.¹⁴ Finally, continuing to hold property that is unneeded does not present a positive image of the federal government in local communities. Instead, it presents an image of waste and inefficiency that erodes taxpayers' confidence. It also can have a negative impact on local economies if the property is occupying a valuable location and is not used for other purposes, sold, or used in a public-private partnership.

¹²[GAO/T-HEHS-99-173](#).

¹³DOE/IG-0550.

¹⁴U.S. General Accounting Office, *VA Health Care: Closing A Chicago Hospital Would Save Millions and Enhance Access to Services*, [GAO/HEHS-98-64](#) (Washington, D.C.: Apr. 16, 1998).

Case Examples: The L. Mendel Rivers Federal Building in Charleston, S.C., and St. Elizabeths Hospital in the District of Columbia

Two examples of vacant, highly visible federal properties are the L. Mendel Rivers Federal Building in Charleston, S.C., and St. Elizabeths Hospital in the District of Columbia. The Charleston building, held by GSA, is a 7-story, 100,000-square-foot office building on just over 2 acres (see fig. 3). The building is contaminated with asbestos and has been unoccupied since it sustained damage in 1999 from Hurricane Floyd. In July 2001, we reported that although there was a weak federal demand for space where the property is located, the property is located in a highly desirable location where land values are high and that there was a strong potential for private sector demand.¹⁵ GSA is currently exploring various options for disposing of this building.

Figure 3: The Vacant L. Mendel Rivers Federal Building in Charleston, S.C.



Source: Ernst & Young LLP.

Note: Provided by Ernst & Young LLP for use in our July 2001 report on public-private partnerships (GAO-01-906).

¹⁵[GAO-01-906](#).

Another example of vacant federal property is the west campus of the St. Elizabeths Hospital complex in the District of Columbia. The federal government owns almost all of the west campus of St. Elizabeths, which has 61 mostly vacant buildings containing about 1.2 million square feet of space on 182 acres. St. Elizabeths began operations in 1855 as the “Government Hospital for the Insane.” During the Civil War, the hospital was used to house soldiers recuperating from amputations, and the property contains a civil war cemetery. Its name changed to St. Elizabeths in the early 1900s. In 1990, the property—which contains magnificent vistas of the rivers and the city—was designated a national historic landmark. This is the same designation given to the White House, the U.S. Capitol building, and other buildings that have historic significance. The Department of Health and Human Services (HHS), which is the holding agency that is responsible for the west campus, has not needed the property for many years. It has remained mostly vacant during this time, and HHS has recently taken steps to dispose of the property. However, in April 2001, we reported that the property had significantly deteriorated and had environmental and historic preservation issues that would need to be addressed in order for the property to be disposed of or transferred to another federal agency.¹⁶ Figure 4 shows the vacant, boarded-up Center Building, which opened in 1855 and served as the main hospital building.

¹⁶U.S. General Accounting Office, *St. Elizabeths Hospital: Real Property Issues Related to the West Campus*, [GAO-01-434](#) (Washington, D.C.: Apr. 16, 2001).

Figure 4: The Vacant Center Building, St. Elizabeths Hospital, District of Columbia



Source: GAO.

Note: Photograph taken in January 2001.

The Federal Portfolio Is in an Alarming State of Deterioration

Restoration, repair, and maintenance backlogs in federal facilities are significant and reflect the federal government's ineffective stewardship over its valuable and historic portfolio of real property assets. The backlog is alarming because of its magnitude—current estimates show that tens of billions of dollars will be needed to restore these assets and make them fully functional. This problem has accelerated in recent years due to the fact that much of the federal portfolio was constructed over 50 years ago, and these assets are reaching the end of their useful lives. A major commitment is necessary to either modernize these facilities or to dispose of them. As pointed out by the National Research Council in 1998, federal assets must be well maintained to operate adequately and cost effectively; to protect their functionality and quality; and to provide a safe, healthy, productive environment for the American public, elected officials, federal employees, and foreign visitors who use them every day. In recognition of the importance of addressing deferred maintenance,¹⁷ federal accounting standards require agencies to report deferred maintenance as supplementary information in their financial statements. As with the problems related to underutilized or excess property, the challenges of addressing facility deterioration are also prevalent at major real property-holding agencies.

¹⁷Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be and that, therefore, is put off or delayed for a future period.

DOD Facilities Are in Significant Need of Repair and Recapitalization

Over the last decade, DOD reports that it has been faced with the major challenge of adequately maintaining its facilities to meet its mission requirements. DOD is responsible for more than 46,425 square miles in the United States and abroad—nearly 5-1/2 times the size of the state of New Jersey. DOD reports that it has a physical plant of some 621,850 buildings and other structures with a replacement value of approximately \$600 billion. Over time, these installations and facilities have been aging and deteriorating as funds to sustain and recapitalize the facilities have fallen short of reported requirements.¹⁸ At present, DOD reports that many of its installations and facilities are not adequate to meet the war-fighting and operational concepts of the 21st century.¹⁹ Commanders currently rate two-thirds of their infrastructure condition to be so poor that it significantly affects mission accomplishment and morale. Although DOD no longer reports data on backlog of repairs and maintenance, it reported in 2001 that the cost of bringing its facilities to a minimally acceptable condition was estimated at \$62 billion; the cost of correcting all deficiencies was estimated at \$164 billion.²⁰

DOD reported that it has not fully funded facility maintenance and recapitalization in recent years because of other budgetary priorities. However, facilities require both adequate maintenance and recapitalization funds to keep them in good condition and help fulfill their mission. For instance, without full sustainment, facilities perform poorly and deteriorate more quickly than would be expected, requiring the premature recapitalization of facilities. Even with full sustainment, the regular recapitalization of facilities is necessary to improve facilities' conditions and performance and to extend the remaining useful life. Recapitalization is also necessary to modernize facilities that no longer meet new mission standards. DOD recently reported that even if all of the funding in its fiscal year 2003 through 2007 future years defense program were appropriated, it

¹⁸The term "sustain" refers to efforts required to keep a facility at its current physical condition using operation and maintenance funds. "Recapitalize" refers to efforts to improve condition or replace a facility with new construction, using either operation and maintenance or military construction funds.

¹⁹Defense Facilities Strategic Plan Working Group, Installations Policy Board, *Defense Installations 2001: The Framework for Readiness in the 21st Century* (Washington, D.C.: Aug. 2001).

²⁰U.S. Department of Defense, *Report to Congress: Identification of the Requirements to Reduce the Backlog of Maintenance and Repair of Defense Facilities* (Washington, D.C.: Apr. 2001).

would have a shortfall of some \$16.5 billion to sustain and modernize facilities at a 67-year recapitalization rate, an average shortfall of \$3.3 billion per year. The private sector replaces or modernizes facilities at an average rate of about once every 50 years, but defense facilities have fallen well short of that rate. For example, in fiscal year 2001, DOD facilities' recapitalization rate was 192 years. At the same time, DOD officials also acknowledge having facilities in excess of their needs, which they expect to address in a new base realignment and closure round planned for 2005.

According to DOD, underfunding of facility maintenance and recapitalization results in an infrastructure that is less and less capable of supporting current military needs. In a recent annual *Installations' Readiness Report*, DOD and the services described the condition of their existing facilities to Congress.²¹ According to the report:

- The majority of the Atlantic Fleet's administrative facility inventory comprises inefficient, World War II- and post-era temporary and semipermanent structures. The age of these facilities, combined with long-term underfunding, has resulted in overall poor facility condition and a substantial backlog of repair needs. Typical deficiencies of administrative facilities were found in plumbing, air conditioning, fire protection, electrical systems, and in the general deterioration of finishes, due to age and wear. According to the Navy, administrative facilities score poorly in funding because priorities continue to focus on operations, training, maintenance, production, and quality of life facilities.
- The maintenance facilities operated by the Pearl Harbor Naval Shipyard and Intermediate Maintenance Facility in Hawaii are in poor physical condition. Significant deficiencies exist at the dry docks, machine shop, sawmill, sheet metal shop, and other facilities, significantly affecting the capability of the shipyard and the quality of workspaces available for assigned civilian workers and sailors. Widespread termite damage, decrepit restrooms, leaky roofs, uneven floors, corroded steel windows, and deteriorated paint and siding are typical of facility conditions. According to the Navy, consistent underfunding of maintenance facilities in past years has led to these poor conditions. Discretionary funding has scarcely been enough to retain dry dock and crane rail

²¹U.S. Department of Defense, *Quarterly Readiness Report to the Congress: Unclassified Annex*, (Washington, D.C.: Oct.-Dec., 2001).

certification, and many other facilities receive only emergency-type repairs to keep them marginally functional.

- The Army Forces Command continues to work around its storage problems by using temporary or inadequate facilities. The “just-in-time” delivery concept allows for less storage space in some cases. However, some installations are using bunkers for storage, some of which are in poor condition. In addition to the effects of working in inadequate facilities, Forces Command reported that inadequate living conditions cause morale problems for single soldiers in barracks and married soldiers and their families assigned to family housing units.
- The Air Force’s Air Combat Command has had a number of its taxiways, ramps, and parking aprons shut down due to their poor conditions. For example, a taxiway at Dyess Air Force Base, Texas, was closed for a long period in 2001, which resulted in increased taxiing time, wasted fuel, and loss of flying time. At most installations, personnel who should be performing other types of work, such as aircraft maintenance, are used to sweep deteriorated runways, taxiways, ramps, and aprons several times daily to clean up debris. In addition, the command reported inadequate space for aircraft maintenance, inoperable hangar doors, leaky roofs, poor lighting, inadequate heating and cooling systems, and lack of fire suppression. These deficiencies delay repairs; limit flying; and require some work to be done in the open, making it subject to weather conditions.

Our recent review of the physical condition of recruit barracks showed that to varying degrees, most barracks were in need of significant repair, although some barracks were in better condition than others.²² We found that the exteriors of each service’s barracks were generally in good condition, but the barracks’ infrastructure often had repair problems that had persisted over time, primarily because of inadequate maintenance. The most prevalent problems across the services included a lack of or inadequate heating and air conditioning; inadequate ventilation (particularly in bathing areas); and plumbing-related deficiencies (e.g., leaks and clogged drains). Base officials told us that although these deficiencies had an adverse impact on the quality of life for recruits and were a burden on trainers, they were able to accomplish their overall

²²U.S. General Accounting Office, *Defense Infrastructure: Most Recruit Training Barracks Have Significant Deficiencies*, GAO-02-786 (Washington, D.C.: June 13, 2002).

training mission. Inadequate ventilation in recruit barracks, especially in central bathing areas that were often subject to overcrowding and heavy use, was another common problem across the services. Many of the central baths in the barracks either had no exhaust fans or had undersized units that were inadequate to expel moisture arising from shower use. As a result, mildew formation and damage to the bath ceilings, as shown in figure 5, were common.

Figure 5: Shower Ceiling Damage at Fort Jackson, S.C., Recruit Barracks



Source: GAO.

Note: Photograph taken in March 2002.

Plumbing deficiencies were also a common problem in the barracks across the services. Base officials told us that plumbing problems—including broken and clogged toilets and urinals, inoperable showers, leaky pipes, and slow or clogged drainpipes and sinks—were recurring problems that often awaited repairs due to maintenance-funding shortages. Training officials told us that because of the inadequate bath facilities for the high number of recruits, they often had to perform “workarounds”—such as

establishing time limits for recruits taking showers—in order to minimize, but not eliminate, adverse effects on training time.

Base officials at most of the locations we visited attributed the deteriorated condition of the recruit barracks to recurring inadequate maintenance, which they ascribed to funding shortages that had occurred over the last 10 years. Without adequate maintenance, facilities tend to deteriorate more rapidly. In many cases that officials cited, they were focusing on emergency repairs and not performing routine preventative maintenance.

Recognizing the need to halt degradation of DOD's facilities, in 1998, the Deputy Secretary of Defense reinvigorated the Installations Policy Board and commissioned it to complete work on a strategic plan for facilities. The *Defense Facilities Strategic Plan*, published in August 2001, was the result of years of work with the defense agencies and services to standardize and develop terminology, concepts, and models and to shape the information into an achievable long-range plan. However, the *Plan* provided only a framework for improving facilities and did not address all real property issues DOD faces. We are continuing to examine facility conditions, assessments, and recapitalization plans as part of our broader ongoing work on the physical condition and maintenance of all DOD facilities. For example, we are reviewing the physical condition and recapitalization plans for all active force facilities in DOD's inventory; and we recently initiated a similar review for the reserve components' facilities.

Interior Has A Multibillion-Dollar Backlog, Affecting Numerous National Treasures

Interior has a significant deferred maintenance backlog that the Interior Inspector General (IG) estimated in April 2002 to be as much as \$8 billion to \$11 billion. While the dollar magnitude of the problem is only an estimate, the scope of the problem has been well documented by GAO, the IG, and Interior itself. For the past two decades, we have reported on the National Park Service's (NPS) inability to properly maintain its physical assets. These include many of this country's national treasures like Ellis Island, Independence Hall, Yellowstone National Park, and Mount Rushmore, just to name a few.²³ Although a major part of NPS's mission is to care for many of our natural, cultural, and historic treasures, it has not been able to properly maintain them. The backlog of NPS maintenance needs is growing, and the condition and utility of many invaluable assets are deteriorating. In 1997, we reported that when compared with other schools nationally, schools operated by the Bureau of Indian Affairs (BIA) were generally in worse condition, had more environmental problems, lacked certain key facilities, and were less able to support advancing technologies.²⁴ BIA has reported a significant backlog of deferred maintenance in BIA facilities and that conditions in the educational facilities negatively affect the ability of children to perform.²⁵

In addition to NPS and BIA, Interior and its IG have done work indicating that the kind of problems we found at NPS and BIA reflect a departmentwide condition. In 1998, in recognition of growing concerns, Interior undertook a departmentwide analysis of its facilities maintenance situation. The analysis documented that there were widespread deferred maintenance problems and deterioration of assets throughout the constructed infrastructure managed by Interior's major bureaus.²⁶ Interior's bureaus manage hundreds of dams and irrigation systems; over 34,000 buildings; 120,000 miles of roads; thousands of bridges; fish hatcheries; electric power and natural gas utility lines; campgrounds; and hundreds of

²³U.S. General Accounting Office, *Park Service: Agency Is Not Meeting Its Structural Fire Safety Responsibilities*, [GAO/RCED-00-154](#) (Washington, D.C.: May 22, 2000).

²⁴U.S. General Accounting Office, *School Facilities: Reported Condition and Costs to Repair Schools Funded by Bureau of Indian Affairs*, [GAO/HEHS-98-47](#) (Washington, D.C.: Dec. 31, 1997).

²⁵BIA Office of Facilities Management and Construction, *Operations and Maintenance Cost Comparison Study* (Washington, D.C.: Dec. 2001).

²⁶These include the Bureau of Reclamation, Fish and Wildlife Service, NPS, BIA, and Bureau of Land Management.

parcs and many nationally known recreational sites. In reporting the results of its analysis, Interior acknowledged that the physical condition of its facilities and the backlog of deferred maintenance needs have never been adequately documented on an Interior-wide basis. As a result of this report, as well as other considerations, Interior has identified the lack of a departmentwide maintenance capability as a mission-critical material weakness. More recently, in February 2002, the IG identified facility maintenance as one of the most significant management challenges facing Interior.

GSA Repair Backlog Estimated at \$5.7 Billion

GSA has struggled over the years to meet the repair and alteration requirements identified at its buildings. In March 2000, we reported that GSA data showed that over half of GSA's approximately 1,700 buildings needed repairs estimated at about \$4 billion.²⁷ More recently, in August 2002, we reported that this estimated backlog of identified repair and alteration needs was up to \$5.7 billion.²⁸ This situation is not new. Over a decade ago, we reported that federal buildings had suffered from years of neglect and that actions were needed to bring some of them up to acceptable quality, health, and safety standards. In April 2001, we reported that delaying or not performing needed repairs and alterations in these buildings could have serious consequences, including health and safety concerns.²⁹ The adverse consequences at several deteriorating federal buildings we visited included poor health and safety conditions due to dysfunctional air ventilation systems, inadequate fire safety systems, and unsafe water supply systems; higher operating costs associated with inefficient building heating and cooling systems; restricted capability to add new information technology because of obsolete electrical systems; and continued structural deterioration resulting from water leaks.

Our April 2001 report illustrated some of the adverse consequences of deferring repair and alteration needs. For example, the Eisenhower

²⁷U.S. General Accounting Office, *Federal Buildings: Billions Are Needed for Repairs and Alterations*, [GAO/GGD-00-98](#) (Washington, D.C.: Mar. 30, 2000).

²⁸U.S. General Accounting Office, *Financial Condition of Federal Buildings Owned by the General Services Administration*, [GAO-02-854R](#) (Washington, D.C.: Aug. 8, 2002).

²⁹U.S. General Accounting Office, *Federal Buildings: Funding Repairs and Alterations Has Been a Challenge—Expanded Financing Tools Needed*, [GAO-01-452](#) (Washington, D.C.: Apr. 12, 2001).

Executive Office Building (EEOB) in Washington, D.C.—which is one of our nation’s grandest and most historic buildings—had suffered water damage from its leaking roof. Its plumbing; electrical; heating, ventilation, and air conditioning; and domestic water supply systems were also seriously deteriorated and outdated. This situation has led to concern by GSA officials that the building’s cluttered electrical and water supply systems were a fire hazard. The electrical system also was not capable of handling 21st century office technology, which is critical to tenant agencies’ accomplishing their missions. In another example, Federal Office Building 3 (FOB 3) in Suitland, Md., had a heating, ventilation, and air conditioning system that was incapable of providing proper air circulation or maintaining desired temperatures. This had resulted in the building containing levels of carbon dioxide that exceeded industry standards, thereby exposing tenants to unacceptable conditions. The water in FOB 3 was not drinkable due to the building’s deteriorated infrastructure. Figure 6 shows some of the conditions that we observed in these buildings.

Figure 6: Water Damage in EEOB in Washington, D.C., and Covered Water Fountain with Posted Warning Against Drinking the Water in FOB 3, Suitland, Md.



Source: GAO.

Note: Photographs taken in August 2000 (EEOB) and February 2001 (FOB 3).

Other Agencies Have Struggled with Deteriorating Facilities

In 1998, the National Research Council concluded that agencies across the federal government have accumulated significant backlogs of maintenance and renovation needs and that many federal buildings require major repairs to bring them up to acceptable quality, health, and safety standards.³⁰ Other major real property-holding agencies have documented repair backlogs and

³⁰National Research Council, *Stewardship of Federal Facilities: A Proactive Strategy for Managing the Nation's Public Assets* (Washington, D.C.: National Academy Press, 1998).

serious deterioration problems, including State, DOE, the Smithsonian Institution, and USPS.

More specifically:

- In July 2000, State's IG reported that the management and maintenance of State's 12,000 properties remained a significant challenge. State's Under Secretary for Management testified in 1999 that costcutting over the past several years had resulted in poorly maintained properties and that the state of disrepair in many department-owned overseas buildings was shocking. In May 2002, State estimated its repair backlog to be \$736 million.
- In September 2000, DOE's IG reported that the condition of DOE's infrastructure was deteriorating at an alarming pace and may be inadequate to meet future mission requirements.³¹ Specifically, this situation had resulted in delays in weapons modification, remanufacture, and dismantlement as well as in the process of surveillance testing of nuclear weapons components.
- Deterioration of the Smithsonian's 400 buildings over the past decade has created a huge maintenance and restoration backlog.³² The President's budget for fiscal year 2003 cited a recent report by the National Academy of Public Administration estimating this backlog at \$1.5 billion over the next decade and stated that funding increases necessary to meet this need will not be possible under current budget constraints.
- USPS has a growing backlog of facility projects and has limited ability to finance needed improvements in its infrastructure—an unsustainable situation, given USPS's need to maintain its massive and growing nationwide infrastructure.³³

As discussed earlier, the deterioration problem leads to increased operational costs, has health and safety implications that are worrisome,

³¹DOE Office of the Inspector General, *Management of the Nuclear Weapons Production Infrastructure*, DOEIG-0484 (Washington, D.C.: Sept. 22, 2000).

³²President's Budget for Fiscal Year 2003.

³³[GAO-02-355](#).

and can compromise agency missions. In addition, we have reported that the ultimate cost of completing delayed repairs and alterations may escalate because of inflation and increases in the severity of the problems caused by the delays.³⁴ The overall cost could also be affected by government realignment. That is, to the extent that unneeded property is also in need of repair, disposing of such property could reduce the repair backlog. Another negative effect, which is not readily apparent but nonetheless significant, is the effect that deteriorating facilities have on employee recruitment, retention, and productivity. This human capital element is troublesome because the government's ability to compete in the job market is often at a disadvantage in terms of the salaries agencies are able to offer. Poor physical work environments exacerbate this problem and can have a negative impact on potential employees' decisions to take federal positions. Furthermore, research has shown that quality work environments make employees more productive and improve morale. Finally, as with excess or underutilized property, deteriorated property presents a negative image of the federal government to the public. This is particularly true when many of the assets the public uses and visits the most—such as national parks and museums—are deteriorated and in generally poor condition.

Key Decisionmakers Lack Reliable and Useful Data on Real Property Assets

Compounding the problems with excess and deteriorated property is the lack of reliable and useful real property data that are needed for strategic decisionmaking. GSA's worldwide inventory of property is the only central source of descriptive data on the makeup of the real property inventory, such as property address, square footage, acquisition date, and property type. However, in April 2002, we reported that the worldwide inventory contained data that were unreliable and of limited usefulness.³⁵ For example, fiscal year 2000 data were not current for 12 of 31 real property-holding agencies. In fact, data for nine of the agencies had not been updated since before fiscal year 1997. Furthermore, we reported that the inventory did not contain certain key data—such as data related to space utilization, facility condition, historical significance, security, and age—that would be useful for budgeting and strategic management purposes.

³⁴GAO-01-452.

³⁵U.S. General Accounting Office, *Federal Real Property: Better Governmentwide Data Needed for Strategic Decisionmaking*, GAO-02-342 (Washington, D.C.: Apr. 16, 2002).

In addition to problems with the worldwide inventory, real property data contained in the financial statements of the U.S. government have been problematic. The Chief Financial Officers Act of 1990 (CFO Act), as expanded by the Government Management Reform Act, required the annual preparation and audit of individual financial statements for the federal government's 24 major agencies. The Department of the Treasury was also required to compile consolidated financial statements for the U.S. government annually, which we audit. In March 2002, we reported that—for the fifth consecutive year—we were unable to express an opinion on the U.S. government's consolidated financial statements for fiscal year 2001. Various material weaknesses³⁶ related to financial systems, fundamental recordkeeping and financial reporting, and incomplete documentation continued to (1) hamper the government's ability to accurately report a significant portion of its assets, liabilities, and costs; (2) affect the government's ability to accurately measure the full costs and financial performance of certain programs and effectively manage related operations; and (3) significantly impair the government's ability to adequately safeguard certain significant assets and properly record various transactions. Because the government lacked complete and reliable information to support asset holdings—including real property—it could not satisfactorily determine that all assets were included in the financial statements, verify that certain reported assets actually existed, or substantiate the amounts at which they were valued.

Aside from the problematic financial data, some of the major real property-holding agencies have faced challenges in developing quality management data on their real property assets. Some of these problems were evident at DOD, the largest property-holding agency. In August 2001, the Deputy Under Secretary of Defense for Installations and Environment issued a report that assessed DOD's real property information systems from a management standpoint.³⁷ The report concluded that DOD's current real property information systems were not sufficiently timely, standardized, or easily accessible, thus hindering DOD's ability to make informed strategic budget and policy decisions about real property issues. More specifically,

³⁶A material weakness is a condition that precludes an entity's internal controls from providing reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis.

³⁷U.S. Office of the Deputy Under Secretary of Defense for Installations and Environment, *Assessment of DOD Real Property Information Systems* (Washington, D.C.: Aug. 8, 2001).

the report said that DOD real property data were incompatible across DOD components; inaccessible to key users; and inaccurate and incomplete, necessitating application of complex and inefficient business rules in order to make the data usable.

The report said that these shortcomings result in (1) wasted money as analysts expend excessive resources to produce and obtain usable information; (2) inconsistent analyses that undermine credibility inside and outside DOD; and (3) flawed decisions based on poor information, producing unintended consequences. The report recommended that the Office of the Deputy Under Secretary of Defense for Installations and Environment maintain a Web-accessible, consolidated DOD real property inventory database for use by all DOD activities and analysts. It also recommended that the Under Secretary, in conjunction with the services and other defense agencies, create an incentive program for maintaining high-quality data and establish, publish, and enforce real property inventory data standards. DOD is moving to implement these recommendations and believes that the entire defense community will benefit from the advantages of an improved data system. Our work has also shown other problems with DOD real property data. For example, we reported in 2001 that DOD did not have an accurate inventory of historic properties.³⁸ DOD also did not have an accurate inventory of formerly used defense sites, which is needed for environmental cleanup.³⁹

³⁸U.S. General Accounting Office, *Defense Infrastructure: Military Services Lack Reliable Data on Historic Properties*, [GAO-01-437](#) (Washington, D.C.: Apr. 6, 2001).

³⁹U.S. General Accounting Office, *Environmental Liabilities: DOD Training Range Cleanup Cost Estimates Are Likely Understated*, [GAO-01-479](#) (Washington, D.C.: Apr. 11, 2001).

Other agencies have faced challenges in their efforts to develop quality management data. For example, we reported in June 2002 that State's property inventory database contained inaccuracies, which could result in unneeded property not being identified.⁴⁰ For example, a parking lot in Paris, purchased in 1948 and valued at up to \$10 million, was not included in the inventory until after a 1998 IG visit highlighted its omission. The department stated that it is taking steps to improve the accuracy, and therefore the reliability, of its inventory, including taking immediate action when incorrect information is discovered. GSA has experienced significant, long-standing problems with data reliability and accuracy for the property it controls. Reports we have issued in recent years on problems with GSA's repair and alterations program identified poor data as an underlying problem.⁴¹ VA has recognized that it has problems with its real property information and has undertaken several efforts to make improvements.⁴² Finally, Interior has no accurate inventory of the assets that need to be maintained or accurate data on the condition of the assets. As a result, the agency is unable to determine the size and scope of its maintenance needs; how much is needed to address these needs; and how much, if any, progress is being made toward closing the maintenance gap. Interior acknowledged this problem and has developed an approach for addressing it.

Quality governmentwide and agency-specific data will be critical for addressing the wide range of problems facing the government in the real property area, including excess and unneeded property, deterioration, and security concerns. Despite the significance of these problems, decisionmakers do not have access to quality data on what real property assets the government owns; their value; whether the assets are being used efficiently; and what overall costs are involved in preserving, protecting, and investing in them. Also, real property-holding agencies cannot easily identify opportunities to use excess or unneeded properties at other agencies that may suit their needs.

⁴⁰U.S. General Accounting Office, *State Department: Sale of Unneeded Overseas Property Has Increased, but Further Improvements Are Necessary*, GAO-02-590 (Washington, D.C.: June 11, 2002).

⁴¹GAO/GGD-00-98; GAO-01-452.

⁴²GAO-02-342.

Reliance on Costly Leasing

As a general rule, building ownership options through construction or purchase are the least expensive ways to meet agencies' long-term requirements. Lease-purchases—where payments are spread out over time and ownership of the asset is eventually transferred to the government—are generally more expensive than purchase or construction but are generally less costly than using ordinary operating leases to meet long-term space needs. However, over the last decade we have reported that GSA—as the central leasing agent for most agencies—relies heavily on operating leases to meet new long-term needs because it lacks funds to pursue ownership. In 1995, we reported that GSA had entered into 55 operating leases for long-term needs that were estimated to cost \$700 million more than construction.⁴³ In 1999, we 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. Lease-purchase would have saved an estimated \$107 million, compared with operating leases but would have cost \$19 million more than construction.⁴⁴ A prime example of this problem was the Patent and Trademark Office's long-term requirements in northern Virginia, where the cost of meeting this need with an operating lease was estimated to be \$48 million more than construction and \$38 million more than lease-purchase. In August 2001, we also reported that GSA reduced the term of a proposed 20-year lease for the Department of Transportation headquarters building to 15 years so that it could meet the definition of an operating lease. GSA's fiscal year 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. The Securities and Exchange Commission used a similar approach by reducing the terms of a proposed 20-year lease for its facility to 14 years.⁴⁵ Although most of our work in this area has focused on GSA-controlled leases, other real property-holding agencies with leasing authority—such as State and VA—also face the same obstacles to ownership. USPS officials told us that they do not believe that USPS has an over-reliance on operating leases.

⁴³U.S. General Accounting Office, *General Services Administration: Opportunities for Cost Savings in the Public Buildings Area*, [GAO/T-GGD-95-149](#) (Washington, D.C.: July 13, 1995).

⁴⁴U.S. General Accounting Office, *General Services Administration: Comparison of Space Acquisition Alternatives—Leasing to Lease-Purchase and Leasing to Construction*, [GAO/GGD-99-49R](#) (Washington, D.C.: Mar. 12, 1999).

⁴⁵U.S. General Accounting Office, *Budget Scoring: Budget Scoring Affects Some Lease Terms but Full Extent Is Uncertain*, [GAO-01-929](#) (Washington, D.C.: Aug. 31, 2001).

Operating leases—in which periodic lease payments are made over the specified length of the lease—have become an attractive option in part because they generally look cheaper in any given year. Pursuant to the scoring rules adopted as a result of the Budget Enforcement Act of 1990, the budget authority to meet the government’s real property needs is to be scored—meaning recorded in the budget—in an amount equal to the government’s total legal commitment. For example, for lease-purchase arrangements, the net present value of the government’s legal obligations over the life of the contract is to be scored in the budget in the first year. For construction or purchase, the budget authority for the full construction costs or purchase price is to be scored in the first year. However, for many of the government’s operating leases—including GSA leases, which, according to GSA, account for over 70 percent of the government’s leasing expenditures and are self-insured in the event of cancellation—only the budget authority to cover the government’s commitment for an annual lease payment is required to be scored in the budget.⁴⁶ Given this, while operating leases are generally more costly over time, compared with other options, they add much less to a single year’s appropriation total than these other arrangements, making this choice a more attractive option from an annual budget perspective, particularly when funds for ownership are not available. While the requirement for “up-front funding” permits disclosure of the full costs to which the government is being committed, the budget scorekeeping rules allow costly operating leases to “look cheaper” in the short term and have encouraged an overreliance on them for satisfying long-term space needs.

Decisionmakers have struggled with this matter since the scoring rules were established and the tendency for agencies to choose operating leases instead of ownership became apparent. We have suggested the alternative of scoring all operating leases up-front on the basis of the underlying time requirement for the space so that all options are treated equally.⁴⁷ Although this could be viable, there would be implementation challenges if this were pursued, including the need to evaluate the validity of agencies’ stated

⁴⁶According to the scoring rules (OMB *Circular A-11*, app. B), in cases where the operating lease does not have a cancellation clause or is not paid for with federal funds that are self-insuring, budget authority to cover the total costs expected over the life of the lease is to be scored in the first year of the lease.

⁴⁷U.S. General Accounting Office, *Supporting Congressional Oversight: Budgetary Implications of Selected GAO Work for Fiscal Year 2003*, [GAO-02-576](#) (Washington, D.C.: Apr. 26, 2002).

space requirements. Another option—which was recommended by the President’s Commission to Study Capital Budgeting in 1999 and discussed by GAO⁴⁸—would be to allow agencies to establish capital acquisition funds to pursue ownership where it is advantageous, from an economic perspective. To date, none of these options have been implemented, and debate continues among decisionmakers about what should be done. Finding a solution for this problem has been difficult; however, change is needed because the current practice of relying on costly leasing to meet long-term space needs results in excessive costs to taxpayers and does not reflect a sensible approach to capital asset management.

Security Is an Overarching Concern

Terrorism is a major threat to federally owned and leased real property assets, the civil servants and military personnel who work in them, and the public who visits them. This was evidenced by the 1995 Oklahoma City bombing; the 1998 embassy bombings in Africa; the September 11, 2001, attacks on the World Trade Center and Pentagon; and the anthrax attacks in the fall of 2001. Since the Oklahoma City bombing, the federal government has spent billions of dollars on security upgrades within the country and overseas. A study of federal facilities done by the Justice Department in 1995 resulted in minimum-security standards and an evaluation of security conditions in the government’s facilities. In October 1995, the President signed Executive Order 12977, which established an Interagency Security Committee (ISC) to enhance the quality and effectiveness of security in nonmilitary federal facilities. Since the attacks on the World Trade Center and the Pentagon, the focus on security in federal buildings has been heightened considerably. Real property-holding agencies have gone on high alert and are employing such measures as searching vehicles that enter federal facilities, restricting parking, and installing concrete barricades. As the government’s security efforts intensify, the government will be faced with important questions regarding the level of security needed to adequately protect federal facilities and how the security community should proceed. Furthermore, the 1995 Justice study placed an emphasis on increasing security where large numbers of personnel are located. However, a risk-based approach—which GSA is using for the federal buildings it controls—appears to be more desirable in light of this new round of threats. In September 2001, we recommended that DOD identify installations that serve a critical military role and ensure

⁴⁸U.S. General Accounting Office, *Accrual Budgeting: Experiences of Other Nations and Implications for the United States*, GAO/AIMD-00-57 (Washington, D.C.: Feb. 18, 2000).

that they receive a higher vulnerability assessment regardless of the number of personnel assigned at the installations.⁴⁹ Since 1996, we have produced more than 60 reports and testimonies on the federal government's efforts to combat terrorism. Several of these reports have recommended that the federal government use risk management as an important element in developing a national strategy.⁵⁰

Recent GAO and IG reports have highlighted the problems and challenges facing agencies in the facility protection and security area:

- We reported in January 2001 that State's most critical infrastructure need is to enhance protection of U.S. embassies and other overseas facilities in response to the increased threat of terrorism.⁵¹ State has determined that not only does it need to enhance security at all existing facilities in the long term, it also must replace over 180 facilities that may be vulnerable to attack. In addition, the administration has recognized a need to rightsize the number and location of staff at U.S. diplomatic posts in response to security and other concerns. The August 2001 President's Management Agenda directed all agencies overseas to rightsize their presence; OMB, in coordination with State and other U.S. agencies operating overseas, is working to develop a process for rightsizing staff levels.
- In September 2001, we reported that the effectiveness of DOD's antiterrorism program has been limited because the department has not (1) assessed all installations to identify vulnerabilities, (2) systematically evaluated installation structure to prioritize resource requirements, and (3) developed a complete assessment of potential threats to each installation.⁵² Specifically, since 1997, DOD's antiterrorism program has been focused on avoiding mass casualties; therefore, its vulnerability assessment resources have been applied to installations with a high concentration of military personnel. Recently,

⁴⁹GAO-01-909.

⁵⁰U.S. General Accounting Office, *Homeland Security: A Risk Management Approach Can Guide Preparedness Effort*, GAO-02-208T (Washington, D.C., Oct. 31, 2001).

⁵¹GAO-01-252.

⁵²U.S. General Accounting Office, *Combating Terrorism: Actions Needed to Improve DOD Antiterrorism Program Implementation and Management*, GAO-01-909 (Washington, D.C.: Sept. 19, 2001).

in July 2002, DOD issued its minimum antiterrorism standards for new construction, major renovation, and leases of DOD buildings.

- Given that Interior is responsible for many high-profile facilities—such as Hoover Dam and national symbols like the Washington Monument and Statue of Liberty that millions of citizens visit every year—security is a concern. In February 2002, the Interior IG identified security as one of the top management challenges facing the department.
- In April 2002, we reported that GAO special agents were able to breach security at four federal buildings in Atlanta.⁵³ They entered the buildings without proper authority, carrying briefcases or packages, and bypassed the magnetometers and X-ray machines.
- Incidents of anthrax in the mail after the September 11, 2001, attacks have heightened the need to improve mail safety and security, which is likely to result in previously unexpected expenses for USPS. These expenses will be a particular challenge for USPS given its current financial condition. USPS will also be challenged in finding ways to protect its facilities against bioterrorism. In August 2002, we reported that while USPS planned to implement state-of-the-art air filtration systems at its processing facilities, it had not adequately tested the systems to confirm that they met their intended purpose of trapping anthrax.⁵⁴
- In September 2002, we reported that ISC has carried out some elements of its responsibilities but has made little progress on several other assigned responsibilities, such as developing and establishing policies for security in and protection of federal facilities, developing a strategy for ensuring compliance with security standards, overseeing the implementation of appropriate security in federal facilities, and developing a centralized security database of all federal facilities.⁵⁵

⁵³U.S. General Accounting Office, *Security Breaches at Federal Buildings in Atlanta, GA*, [GAO-02-668T](#) (Washington, D.C.: Apr. 30, 2002).

⁵⁴U.S. General Accounting Office, *Diffuse Security Threats: USPS Air Filtrations Systems Need More Testing and Cost Benefit Analysis before Implementation*, [GAO-02-838](#) (Washington, D.C.: Aug. 22, 2002).

⁵⁵U.S. General Accounting Office, *Building Security: Interagency Security Committee Has Had Limited Success in Fulfilling Its Responsibilities*, [GAO-02-1004](#) (Washington, D.C.: Sept. 22, 2002).

In addition to the clear challenges agencies will continue to face in securing real property assets, the security issue has an impact on the other problems that have been discussed. To the extent that more funding will be needed to increase security, funding availability for repair and restoration, preparing excess property for disposal, and improving real property data systems may be further constrained. Furthermore, real property managers will have to dedicate significant staff time and other human capital resources to security issues and thus may have less time to manage other problems. Another broader effect is the impact that increased security will have on the public's access to government offices and other assets. Debate arose in the months after September 11, 2001, and continues to this day on the challenge of providing the proper balance between public access and security. In November 2002, the Department of Homeland Security was established and given responsibility to protect buildings, grounds, and property that are owned, occupied, or secured by the federal government—including any agency, instrumentality, or wholly owned or mixed government corporation—and the persons on the property.⁵⁶ This newly created department will play a large role in meeting this significant challenge.

Various Efforts Initiated, but Real Property Problems Persist Due to Factors that Require High-Level Attention

Although the federal government faces significant, long-standing problems in the real property area, it is important to give Congress, OMB, GSA, and the major real property-holding agencies credit for proposing several reform efforts and other initiatives in recent years. Legislative proposals in the 107th Congress (S. 1612⁵⁷ and H.R. 3947⁵⁸) were aimed at improving real property data, establishing senior real property managers at agencies, developing asset management principles, and identifying specific conditions under which GSA and other agencies can enter into real property partnerships with the private sector. Although these proposed bills did not address some of the other major issues needing attention, such as the over-reliance on costly leasing, they would have laid the foundation for beginning to address many of the long-standing problems in the real property area. To address the changing mission of DOD in the post-Cold

⁵⁶P.L. 107-296; Nov. 25, 2002.

⁵⁷Title III of the Managerial Flexibility Act of 2001 (2001) is entitled Federal Property Asset Management Reforms.

⁵⁸The Federal Property Asset Management Reform Act of 2002 (2002).

War era, four rounds of restructuring by Base Realignment and Closures Commissions have reduced DOD's infrastructure by about 21 percent. As mentioned earlier, the National Defense Authorization Act for fiscal year 2002 gave DOD the authority for another round of base realignment and military installation closures in 2005. DOD officials testified that these actions could result in recurring annual net savings of about \$3 billion. Although DOD views the base realignment and closure process as having the greatest impact in terms of savings, this process is only one initiative in a multipart strategy to reshape military installations and make them more efficient. Other important initiatives include, but are not limited to, privatization of housing and utilities, competitive sourcing of noninherently governmental functions, demolition, and leasing of its real property and facilities to the private sector. However, we reported in June 2002 that DOD has made limited use of the authority it has to lease underused property to reduce infrastructure and base operating costs.⁵⁹

In the area of budgeting and capital planning, OMB issued its *Capital Programming Guide* as a supplement to *OMB Circular A-11*, part III, in 1997.⁶⁰ The purpose of the guide was to provide real property managers with a basic reference on principles and techniques for capital asset planning, budgeting, procurement, and management. In subsequent revisions to *Circular A-11*, part III, OMB increased emphasis on capital planning and decisionmaking. In June 2002, OMB issued a new section of A-11—section 800, *Managing Physical and Financial Assets*—which requires agencies to include with their budget submissions to OMB self-assessments of their ability to manage their physical and financial assets. In discussing issues associated with real property management, OMB emphasized that effective property management is supported by the timely and accurate reporting requirement of the Improved Financial Performance Initiative of the President's Management Agenda. OMB added that associated process and system enhancements are laying the groundwork for informed asset management capabilities and that early signs of progress have been seen in the area of agency vehicle fleets. OMB said that in 2003, specific monitoring of agency asset management practices would be part of the Improved Financial Performance Initiative.

⁵⁹GAO-02-475.

⁶⁰In the most recent version, the guide is now a supplement to part 7 of A-11. Also, part 8, *Managing Federal Assets*, has been added.

Additionally, OMB said that it is preparing to launch a related review of asset management practices and performance across the executive branch.

As a result of congressional debate in the mid-1990s about whether the Constitution should be amended to require the government to have a balanced budget every year, the President's Commission to Study Capital Budgeting was established. The Commission's February 1999 report made a number of recommendations, including improved strategic planning; greater use of benefit-cost assessments; establishment and subsequent assessment of capital acquisition funds as an experiment in a few agencies; full funding of capital projects before work begins; and incentives for better asset management.

In addition to DOD, other real property-holding agencies have important initiatives under way that are designed to address real property challenges. For example:

- VA has recognized that it can significantly reduce the funds used to operate and maintain its capital infrastructure and provide higher quality service by developing and implementing market-based plans for restructuring assets. As previously discussed, VA's CARES effort is intended to accomplish this. CARES is a data-driven assessment of veterans' health care needs within each of VA's 21 service networks and the strategic realignment of capital assets and related resources to better serve the needs of veterans. CARES program officials are planning to provide realignment recommendations to the Secretary of Veterans Affairs by October 2003. In recent years, VA has also developed legislative proposals to establish a capital asset fund, which would, among other things, be aimed at improving its capability to dispose of unneeded real property by helping to fund related costs such as demolition, environmental cleanup, and repairs.
- State has taken steps to implement a more systematic process for identifying unneeded properties by (1) requesting posts to annually identify excess, underutilized, and obsolete property and (2) requesting its own staff and IG officials to place greater emphasis on identifying such property when they visit the posts. Although it still has a large number of properties that have not yet been sold, State has significantly increased its sales of unneeded properties in the last 5 years. From 1997 through 2001, it sold 104 overseas properties for over \$404 million, almost triple the proceeds generated in the previous 5-year period.

- GSA began a major effort in 2001—known as the Portfolio Restructuring Initiative—to restructure its inventory to retain primarily strong, income-producing properties. As part of this effort, GSA has begun conducting periodic reviews of the financial and physical condition of the assets; focusing reinvestment funds on performing assets; and disposing of, or dealing with, properties that are not financially self-sustaining and/or for which there is not a substantial, long-term federal purpose. According to GSA, over 40 percent of its buildings have expenses that exceed tenant rent revenue and have a minimal reserve for future building needs.
- USPS recognizes that continuing to address the issue of excess and underperforming real property assets will have to be a part of its needed transformation in light of its current financial crisis. USPS officials said they were currently expanding their current disposal efforts.
- As mentioned before, Interior has recognized the need for improvements in its real property data and has developed an approach for addressing the problems.

While some of the initiatives agencies have undertaken have had success, many are in the early stages of implementation; and in most cases, their effectiveness has yet to be determined. Furthermore, many of the needed reforms have not been initiated or successfully implemented. Despite these efforts and the sincerity with which the federal real property community has embraced the need for reform, the problems have persisted and have been exacerbated by several factors that will require high-level attention from Congress and the administration. These factors include competing stakeholder interests in real property decisions; various legal and budget-related disincentives to businesslike outcomes; the need for improved capital planning; and the lack of a strategic, governmentwide focus on federal real property issues.

Competing Stakeholder Interests

Competing interests in real property decisions have been a part of the American political landscape since the country was founded. Members of Congress often pursue funding for federal projects in their districts, and the administration's budget reflects the President's spending priorities. While critics may see some of the projects as "pork barrel," others see them as needed and worthwhile federal investments that reflect various policy priorities. In addition to Congress, OMB, and the real property-holding agencies themselves, several other stakeholders also have an interest in

how the federal government carries out its real property acquisition, management, and disposal practices. These include foreign governments; state and local governments; business interests in the communities where the 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 local communities. As a result of competing stakeholder interests, decisions about real property often do not reflect the most cost-effective or efficient alternative that is in the interest of the agency or the government as a whole but instead reflect other priorities. In particular, this situation often arises when the federal government attempts to consolidate facilities or otherwise dispose of unneeded assets. For example:

- DOD has found that infrastructure reductions are difficult and painful because achieving significant cost savings requires closing installations and eliminating military and civilian jobs in the affected communities. DOD's ability to realign its infrastructure has been affected by parochialism among the military services, a cultural resistance to change, and congressional and public concern about the effects and impartiality of decisions.
- VA's environment contains a diverse group of competing stakeholders who could oppose realignment plans that they feel are not in their best interests, even when such changes would benefit veterans.⁶¹ For example, medical schools that use VA hospitals to train students have been reluctant to change long-standing business relationships. Also, organized labor has appeared reluctant to support planning decisions that result in service restructuring, even when such decisions are in veterans' best interests.
- Historically, proposed post office closures in urban, suburban, or rural areas, and changes to postal infrastructure by USPS, have provoked intense opposition because post offices are part of American culture and business and are viewed as critical to the economic viability of small towns and central business districts. Members of Congress and other stakeholders have often intervened in the past when USPS has attempted to close post offices or consolidate facilities.

⁶¹U.S. General Accounting Office, *VA Health Care: Capital Asset Planning and Budgeting Need Improvement*, [GAO/T-HEHS-99-83](#) (Washington, D.C.: Mar. 10, 1999).

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- State's disposal of unneeded overseas property has, in some cases, been delayed pending resolution of disputes with host governments that were restricting property sales.

It is important to note that the political process is the most legitimate way to balance competing stakeholder interests in the real property area. Because elected officials are tasked with balancing these interests, it is imperative that these decisionmakers be presented with information on the trade-offs associated with different options and that the costs are transparent and fairly stated.

Legal and Budgetary Disincentives

The complex legal and budgetary environment in which real property managers operate has a significant impact on real property decisionmaking and often does not lead to businesslike outcomes. Although the Property Act is the law of general application governing federal real property, many other laws govern real property acquisition, management, and disposal. In addition, annual agency appropriation acts often specify additional new requirements, many of which are project-specific. In the acquisition area—as discussed earlier—budget scoring rules intended to promote budget discipline actually make costly operating leases an attractive option because their costs are spread out over time. We have also reported that public-private partnerships can be a viable option for redeveloping obsolete federal property when they provide the best economic value for the government, compared with other options, such as federal financing through appropriations or sale of the property. However, most agencies are precluded from entering into such arrangements. DOD, VA, and USPS, however, have this authority. S. 1612 and H.R. 3947 would have allowed most agencies to enter into such partnerships. In May 2002, the Congressional Budget Office concluded that the partnerships, like lease-purchase arrangements, should be recorded up front in the budget.

Resource limitations, in general, often prevent agencies from addressing real property needs from a strategic portfolio perspective. When available funds for capital investment are limited, Congress must weigh the need for new, modern facilities with the need for renovation, maintenance, and disposal of existing facilities, the latter of which often gets deferred. As the National Research Council has reported, facilities maintenance and repair are often deemed a low priority because facility program managers do not present a good case for funding. Also, the need to balance adequate congressional oversight with the desire to give agencies flexibility to pursue properties on the open market is an ongoing challenge. Lack of

funds for building purchases often precludes federal real property managers from considering the purchase option when an opportunity arises that may be economically advantageous for the government.

In the disposal area, a range of laws intended to address other objectives challenges agencies' efforts to dispose of unneeded property. For example, USPS is specifically precluded from closing small post offices solely for economic reasons.⁶² Furthermore, agencies are required under the National Environmental Policy Act to consider the environmental impact of their decisions to dispose of property. Generally speaking, agencies are responsible for environmental cleanup prior to disposal. Despite the importance of this, these costs can be considerable and can involve years of study. For example, we reported that St. Elizabeths Hospital in the District of Columbia had medical wastes, possible soil contamination, asbestos, lead paint, and other hazardous substance conditions that would have to be assessed through two phases of study and ultimately addressed.⁶³ For property with historic designations—which is common in the federal portfolio—agencies are required by the National Historic Preservation Act to ensure that historic preservation is factored into how the property is eventually used. This is the case with St. Elizabeths, which is a National Historic Landmark.

The Property Act further specifies that unneeded property first be offered to other federal agencies; and the Stewart B. McKinney Homeless Assistance Act, as amended, sets forth a requirement that consideration be given to making unneeded property available to assist the homeless. Another factor in the disposal area is that most agencies cannot retain the proceeds from the sale of unneeded property. Given that agencies are required to fund the costs of preparing property for disposal, the inability to retain any of the proceeds acts as an additional disincentive. It seems reasonable to allow agencies to retain enough of the proceeds to recoup the costs of disposal, and it may make sense to permit agencies to retain additional proceeds for reinvestment in real property where a need exists. However, in considering whether to allow federal agencies to retain proceeds from real property transactions, it is important for Congress to ensure that it maintains appropriate control and oversight over these funds,

⁶²39 U.S.C. 101(b).

⁶³[GAO-01-434](#).

including the ability to redistribute the funds to accommodate changing needs.

Need for Improved Capital Planning

Over the years, we have reported that prudent capital planning can help agencies to make the most of limited resources, and failure to make timely and effective capital acquisitions can result in increased long-term costs. GAO, Congress, and OMB have identified the need to improve federal decisionmaking regarding capital investment. GAO work during the 1990s identified a variety of federal capital projects in which acquisitions yielded poor results—costing more than anticipated, falling behind schedule, and failing to meet mission needs and goals.⁶⁴ A number of laws enacted in the 1990s, including the Federal Acquisition Streamlining Act, the Clinger-Cohen Act, and the Government Performance and Results Act (GPRA) of 1993, placed increased emphasis on improving capital decisionmaking practices. OMB also has noted a lack of clear sense of mission for many programs, insufficient consideration of life-cycle costs, and failure to analyze and manage the risk inherent in capital asset acquisitions. OMB's *Capital Programming Guide* and its revisions to *Circular A-11* have attempted to fill these gaps. However, guidance on project analysis, selection, tracking, and evaluation historically has not been provided on a governmentwide basis. Furthermore, agencies have not always developed overall goals and strategies for implementing capital investment decisions, nor has the federal government generally planned or budgeted for capital assets over the long term.

⁶⁴U.S. General Accounting Office, *Executive Guide: Leading Practices in Capital Decisionmaking*, [GAO/AIMD-99-32](#) (Washington, D.C.: Dec. 1998).

Our work in recent years at the individual real property-holding agencies illustrated some of the challenges agencies have faced and showed that improvements in capital planning were needed. For example, we reported in 1999 that VA's capital asset decisionmaking process appeared to be driven more by the availability of resources within VA's different appropriations than by the overall soundness of investments.⁶⁵ This resulted in VA spending millions more on leasing property instead of ownership because funds were more readily available in the appropriation that funds leases than in the construction appropriation. We recommended in January 2001 that DOD should develop a comprehensive long-range plan for its facilities infrastructure that addresses requirements, reinvestment, and maintenance and repair needs.⁶⁶ Our work at USPS showed that a major site acquisition in California was completed before other options had been analyzed and while analysis of space requirements and costs was still under way.⁶⁷

Another concern we have identified in the capital decisionmaking area is that capital project funding requests in agencies' budget justifications often lacked total project cost information; it was not always clear if the funding would provide a useful, stand-alone asset.⁶⁸ For example, the U.S. Coast Guard's fiscal year 2001 budget justifications had "To Be Determined" under the estimated future cost requirement for several ongoing projects. Without this information, Congress cannot consider the full costs of proposed commitments. Finally, preliminary results of work we have under way assessing agencies' implementation of the planning phase principles in OMB's *Capital Programming Guide* show that some agencies' principles do not conform to the OMB principles. For example, some agencies have had limited success with establishing asset inventories and maintaining good data on asset condition. The details of this review will be forthcoming. Improving agencies' capital planning practices would be the foundation of any effort to improve the government's performance in the real property area. Without a concerted effort in this area, it will be difficult

⁶⁵GAO/T-HEHS-99-83.

⁶⁶GAO-01-263.

⁶⁷U.S. General Accounting Office, *U.S. Postal Service: Deficiencies Continue While Antelope Valley Project Status Remains Uncertain*, GAO/GGD-99-147 (Washington, D.C.: Aug. 31, 1999).

⁶⁸U.S. General Accounting Office, *Budget Issues: Agency Data Supporting Capital Project Funding Requests Could Be Improved*, GAO-01-770 (Washington, D.C.: June 8, 2001).

for the government to ensure that the purchase of new assets will generate the highest and most efficient returns to taxpayers and that existing assets will be adequately repaired, maintained, and protected.

Lack of a Strategic,
Governmentwide Focus on
Real Property Issues

The magnitude of real property-related problems and the complexity of the underlying factors that cause them to persist put the federal government at significant risk in this area. Real property problems related to unneeded property and the need for realignment; deteriorating conditions; unreliable data; costly space; and security concerns are shared by several agencies, have multibillion-dollar cost implications, and can seriously jeopardize mission accomplishment. Although some efforts in recent years have attempted to address real property issues with some limited success, these problems have persisted and will continue to grow in magnitude unless they are adequately addressed. To date, there has been no governmentwide, strategic focus on real property issues. Resolving these long-standing problems will require high-level attention and effective leadership by Congress and the administration. The President's Council on Integrity and Efficiency (PCIE) has echoed this concern by identifying physical infrastructure as one of eight top agency management challenges warranting high-level attention and applying across government.⁶⁹ In fact, PCIE's August 2002 report on these challenges stated that the number of agency IGs that cited physical infrastructure as a management challenge for their agencies has doubled since the March 2001 report.⁷⁰ PCIE attributed the increased attention on the physical infrastructure challenge to the September 11, 2001, terrorist attacks. In its August 2002 report, the PCIE also stated that the physical infrastructure challenge would, in all likelihood, be facing the federal government for quite some time.

In addition, because of the breadth and complexity of the issues involved, the long-standing nature of the problems, and the intense debate about potential solutions that will likely ensue, current structures and processes may not be adequate to address the problems. Given this, there is a need for a comprehensive and integrated transformation strategy for federal real property, and an independent commission or governmentwide task force

⁶⁹The President's Council on Integrity and Efficiency, *Report on Top Management Challenges Identified by Agency Inspectors General*, (Washington, D.C.: Mar. 27, 2001).

⁷⁰The President's Council on Integrity and Efficiency, *Report on Top Management Challenges Identified by Agency Inspectors General*, (Washington, D.C.: Aug. 23, 2002).

may be needed to develop this strategy. Such a strategy, based on input from agencies, the private sector, and other interested groups, could comprehensively address these long-standing problems with specific proposals on how best to

- realign the federal infrastructure and dispose of unneeded property, taking into account mission requirements, changes in technology, security needs, costs, and how the government conducts business in the 21st century;
- address the significant repair and restoration needs of the federal portfolio;
- ensure that reliable governmentwide and agency-specific real property data—both financial and program related—are available for informed decisionmaking;
- resolve the problem of heavy reliance on costly leasing; and
- consider the impact that the threat of terrorism will have on real property needs and challenges, including how to balance public access with safety.

To be effective in addressing these problems, it would be important for the strategy to focus on

- minimizing the negative effects associated with competing stakeholder interests in real property decisionmaking;
- providing agencies with appropriate tools and incentives that will facilitate businesslike decisions—for example, consideration should be given to what financing options should be available; how disposal proceeds should be handled; what process would permit comparisons between rehabilitation/renovation and replacement and among construction, purchase, lease-purchase, and operating lease; and how public-private partnerships should be evaluated;
- addressing federal human capital issues related to real property by recognizing that real property conditions affect the federal government's ability to attract and retain high-performing individuals and the productivity and morale of employees;

- improving real property capital planning in the federal government by better integrating agency mission considerations into the capital decisionmaking process, making businesslike decisions when evaluating and selecting capital assets, evaluating and selecting capital assets by using an investment approach, and evaluating results on an ongoing basis; and
- ensuring credible, long-term budget planning for facility sustainment, modernization, or recapitalization.

The transformation strategy should also reflect the lessons learned and leading practices of organizations in the public and private sectors that have attempted to reform their real property practices. Over the past decade, leading organizations in both the public and private sectors have been recognizing the impact that real property decisions have on their overall success. More information on lessons learned and leading practices in the real property area is contained in the appendix.

If the federal government is to more effectively respond to the challenges associated with strategically managing its multibillion-dollar real property portfolio, a major departure from the traditional way of doing business is needed. Better managing these assets in the current environment calls for a significant paradigm shift to find solutions. Solutions should not only correct the long-standing problems we have identified but also be responsive to and supportive of agencies' changing missions, security concerns, and technological needs in the 21st century. If actions resulting from the transformation strategy comprehensively address the problems and are effectively implemented, agencies will be better positioned to recover asset values, reduce operating costs, improve facility conditions, enhance safety and security, and achieve mission effectiveness.

In addition to developing a transformation strategy, it is critical that all the key stakeholders in government—Congress, OMB, and real property-holding agencies—continue to work diligently on the efforts planned and already under way that are intended to promote better real property capital decisionmaking, such as enacting reform legislation, assessing infrastructure and human capital needs, and examining viable funding options. Congress and the administration could work together to develop and enact needed reform legislation to give real property-holding agencies the tools they need to achieve better outcomes, foster a more businesslike real property environment, and provide for greater accountability for real property stewardship. Congress and the administration could also elevate

the importance of real property in policy debates and recognize the impact that real property decisions have on agencies' missions. Solving the problems in this area will undeniably require a reconsideration of funding priorities at a time when budget constraints will be pervasive. However, experimenting with creative financing tools and allocating sufficient funding will likely result in long-term benefits.

Property-holding agencies can also help Congress and OMB by providing reliable data on their real property inventories and linking their real property planning efforts to their budgets and strategic plans. Agencies could also strengthen their efforts to share lessons learned, best practices, and performance measurement approaches that key decisionmakers can use to gauge progress and measure results. Without effective tools; top management accountability, leadership, and commitment; adequate funding; and an effective system to measure results, long-standing real property problems will continue and likely worsen. However, the overall risk to the government and taxpayers could be substantially reduced if an effective transformation strategy is developed and successfully implemented, reforms are made, and property-holding agencies effectively implement current and planned initiatives.

Lessons Learned and Leading Practices in Real Property

Over the past decade, leading organizations in both the public and private sectors have recognized the impact that real property decisions have had on their overall success. A 1993 study for the Industrial Development Research Foundation (IDRF) conducted by researchers from the Massachusetts Institute of Technology and Cornell University detailed the innovative practices of private sector organizations, specifically their transformation to recognizing and managing real property as a corporate resource equally as important as capital, people, technology, and information.¹ The report concluded that leading organizations are recognizing that real property is another valuable capital asset that, if managed well, has an impact on mission accomplishment and achievement of business objectives.

General Motors (GM) is an example of a private sector firm that has recognized the impact that real property decisions have on an organization's ability to meet its business objectives. In 1995, GM decided to consolidate the management of its extensive portfolio of real property into a single division called the Worldwide Facilities Group (WFG). Prior to this reorganization, each GM division had its own real property organization, staff, and processes. According to a GM executive, the creation of the WFG brought significant advantages to GM by reducing costs and deploying common practices across the company. This executive added that the benefits that GM experienced did not result from consolidation alone, but from the strategic management of real property as a business enterprise.

Our past work has also shown that foreign governments have recognized the need for transforming their real property management practices. In the mid 1990s, we examined and reported on methods that Australia, Canada, the United Kingdom, and Sweden used to restructure or reform their real property management organizations.² Like the United States, these countries had long-standing structural and management problems that limited the ability of their real property organizations to meet customers' real property needs. These countries recognized the need to manage real property assets as investments and to use them to meet mission needs. The

¹Michael Joroff, Marc Louargand, Sandra Lambert, and Franklin Becker, *Strategic Management of the Fifth Resource: Corporate Real Estate* (U.S.A.: The Industrial Development Research Foundation, 1993).

²U.S. General Accounting Office, *Real Property Management: Reforms in Four Countries Promote Competition*, [GAO/GGD-94-166](#) (Washington, D.C.: Sept. 1994).

countries also made a fundamental shift in their management philosophy for handling these assets by shifting from providing basic property needs at the least cost to managing real property in a more businesslike manner to better meet their customers' mission needs and to maximize return on investment.

In 1998, we reported on leading practices in capital decisionmaking used by state and local governments and private sector organizations recognized for their outstanding capital decisionmaking practices, including the State of Maryland, Dayton, Ohio, and Ford Motor Company.³ We identified the general principles that leading organizations used to make capital investment decisions, such as for the acquisition or renovation of real property. One of these principles was integrating organizational goals into the capital decisionmaking process. Other principles included evaluating and selecting capital assets using an investment approach, balancing budgetary control and managerial flexibility when funding capital projects, using project management techniques to optimize project success, and evaluating results and incorporating lessons learned into the decisionmaking process. In addition, we noted that an important factor in successful capital decisionmaking is strategic planning. Through this process, an organization translates a vision and makes fundamental decisions that shape and guide what the organization is and what it does. We found that leading organizations use their strategic planning processes to link the expected outcomes of capital projects to the organizations' overall strategic goals and objectives. In 1999, we reported on practices at federal agencies that were attempting to use more businesslike approaches through public-private partnerships. Among other things, we found that agencies that had successfully implemented public-private partnership projects had (1) developed their human capital to obtain needed expertise, (2) implemented strong planning efforts to protect the government's interests, and (3) obtained congressionally enacted statutory authority to enter into the partnership.⁴

³GAO/AIMD-99-32.

⁴U.S. General Accounting Office, *Public-Private Partnerships: Key Elements of Federal Building and Facility Partnerships*, GAO/GGD-99-23 (Washington, D.C.: Feb. 3, 1999).

GSA has recently undertaken research on leading practices in linking real property workplace management to agency mission.⁵ GSA noted that many agencies do not adequately focus their planning efforts on the assets they control. Further, GSA's research showed that due to changing human capital needs, the impact of administrative services—including real property—is likely to become more significant. By thinking strategically about the workplace and how administrative services affect the delivery of their missions, agencies can directly improve the productivity of their human capital. GSA recommended the following practices for integrating administrative services into the strategic planning process:

- Involve administrative support leaders in establishing strategic program priorities;
- Integrate key support functions into the strategic planning process;
- Communicate the message throughout the organization to ensure thoroughness of input, clarity of expectations, and authenticity of associates' buy-in to agency strategies;
- Adopt tools for planning, managing, and evaluating support function contributions; and
- Use analytical tools to set performance targets, standards, and measures for key administrative support objectives.

⁵U.S. General Services Administration, *Strategic Planning: Aligning Workplace Services Creates Value* (Washington, D.C.: June 2002).

The physical workspace is evolving, and public and private organizations are recognizing that they can attain strategic mission objectives more efficiently when they pay attention to this area. In the case of the federal government, technological advancements, electronic government, flexible workplace arrangements, changing public needs, opportunities for interagency resource sharing, and security concerns will call for a different way of thinking about the federal workplace and the government's overall real property needs. As previously discussed, major corporations and government agencies are recognizing their real property workspace can be a tool used to support their organizations' missions and strategic plans, meet the needs and practices of their employees, and inexpensively accommodate change. Further, GSA has found that the flexibility to accommodate individual work styles and future organizational change is one of the most important elements of any workspace.⁶ However, there is recognition in the real property community that without high-level support, customer demand, and better assessment of workplace requirements, the federal government will be challenged in attaining this flexibility.

In August 2002, we sponsored a symposium with assistance from the National Research Council on leading real property practices and the major issues facing the federal government in this area. Panelists included representatives from federal and other public agencies, private companies, architectural and consulting firms, and a key congressional committee. Symposium attendees included officials from 10 of the major real property-holding agencies. Overall, the participants agreed that federal real property is a problematic area, and they soundly confirmed the problems and challenges that we and others have identified. The participants were particularly concerned about the negative effect real property problems have on an organization's ability to accomplish its mission and the impact that poor quality work environments have on an organization's ability to attract and retain a quality workforce. In discussions of ways that the federal government could overcome the problems it is facing in this area, several recurring themes emerged. These included the following:

- the need for top-level support and commitment from Congress, OMB, and other real property holding-agencies to recognize the significance of these problems and seek solutions to resolve them;

⁶U.S. General Services Administration, *New Adventures in Office Space: The Integrated Workplace, A Planning Guide* (Washington, D.C.: Feb. 2002).

- the need to integrate facilities with agency mission in strategic planning efforts;
- the need for a broader range of financing and management tools;
- the need for skilled people in the real property management area;
- the need to address the negative effects that budget scoring rules have on capital decisionmaking;
- the challenge of balancing security concerns with costs and the need for public accessibility; and
- the need for high-quality data on real property assets to provide better information for strategic decisionmaking.

The panelists generally agreed that there would be no quick fixes for the federal real property dilemma. Moreover, they recognized that without effective reforms and strategies for addressing the challenges facing real property managers, the current crisis would only worsen and continue to negatively affect agencies' missions.

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Related GAO Products

Excess and Underutilized Property

U.S. General Accounting Office, *State Department: Sale of Unneeded Overseas Property Has Increased, but Further Improvements Are Necessary*, [GAO-02-590](#) (Washington, D.C.: June 11, 2002).

U.S. General Accounting Office, *U.S. Postal Service: Deteriorating Financial Outlook Increases Need for Transformation*, [GAO-02-355](#) (Washington, D.C.: Feb. 28, 2002).

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