

**Statement of  
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Before the  
Committee on Homeland Security and Governmental Affairs, Subcommittee  
on Federal Financial Management, Government Information, and  
International Security  
Hearing on  
"How Does the Federal Government Lease Needed Space?"  
United States Senate  
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Mr. Chairman and members of the subcommittee, I am pleased to appear before you this afternoon to provide you with an overview of the Department of Veterans Affairs' (VA) leasing program, with a primary emphasis on VA's leasing processes and the reasons VA enters into leasing arrangements.

The Department of Veterans Affairs (VA) is the owner, tenant and operator of one of the largest health care related real estate portfolios in the United States. The Department also maintains facilities for the Veterans Benefit Administration (VBA) and most of the Nation's national cemeteries under management of VA's National Cemetery Administration (NCA). Overall, VA owns and leases over 5,000 buildings comprising over 144M square feet of space. Approximately, 10.5M square feet of this space has been acquired through over 1,000 leases. VA uses its leasing authority for multiple purposes including acquiring space for Community Based Outpatient Clinics, Regional Offices, and space to support the Department's research and information technology missions, to name only a few.

The need for space to support mission accomplishment is identified in the strategic planning processes of the Administrations. The proposed acquisition of leased space exceeding the threshold levels established by Congress is evaluated as part of the Department's capital investment application process. The acquisition of smaller amounts of space is approved at the appropriate levels within the Department. Before the Department enters the market to acquire leased space, VA first notifies the General Services Administration (GSA) to determine if any suitable space is available in their inventory that will meet VA needs.

### **VA's Delegated Leasing Authority**

VA operates its lease acquisition program under a Delegation of Leasing Authority from GSA. The initial delegation, granted in September 1983, allows VA to assume responsibility for all leasing of outpatient and medically related activities throughout the country, with authority for firm term leases up to 20

years. In February 1995, the delegation was expanded to include general purpose office and related space to provide administrative and functional support to the medical facilities. Further, under GSA's 1996 "Can't Beat GSA Leasing" program, the Administrator of General Services delegated GSA's authority to lease general purpose office space for periods up to 20 years to all Federal agencies. Under the Can't Beat GSA Leasing program, as well as with all delegations of GSA leasing authority, Federal agencies must adhere to all applicable laws and regulations when acquiring and utilizing space. Therefore, VA follows all the same rules, regulations and laws required including, but not limited to, the Competition in Contracting Act, Executive Orders 12072 and 13006, Davis Bacon Act, the lease prospectus-approval requirements of 40 U.S.C. § 3307, and the General Services Administration Acquisition Regulations. Also, with respect to our lease procurements under GSA's "Can't Beat GSA Leasing" Delegation, VA must first notify GSA of the proposed action, to be sure other Federal space is not available, and to ensure that our lease procurement is compatible with GSA's community housing plans. The VA must also semi-annually notify GSA of its leasing activities under all GSA leasing delegations.

VA is legislatively mandated by Congress with certain authorization and appropriation requirements including dollar thresholds for reporting lease acquisitions. Congressional authorization is required of all leasing actions when the annual base rent is \$600,000 or greater. In addition, VA must notify Congress before obligating funds for any lease (1) when the annual rent exceeds \$300,000, or (2) if the rental amount exceeds by more than ten percent that which was previously authorized by legislation.

### **VA's Delegated Leases**

By VA Directive, the Secretary of Veterans Affairs has granted delegations of authority within VA. The Real Property Service within VHA's Office of Facilities Management (OFM) is responsible for all leasing actions throughout the country. Small leases under 10,000 square feet and under \$300,000 in annual rent may be acquired at the local level by the Director of each VA Medical Center through their contracting activity. Some instances may arise where it is advantageous to obtain space through GSA. VBA which operates VA benefits programs acquires most of its space through GSA assignment and often utilizes Federally-owned space to house veterans' benefits offices.

### **Best Value Contracting**

All leasing actions are negotiated procurements and are based on a methodology colloquially known as "best value" contracting. VA seeks competition to the fullest extent possible when acquiring space and establishes evaluation criteria specific to each procurement. Offers are evaluated for both technical qualifications and price, and the Contracting Officer establishes a

competitive range of those offerors that are the most highly qualified. Negotiations are held with the offerors within the competitive range and final revised proposals are reevaluated. The total rental price of a lease over its term is then discounted to its present value. That present value is then evaluated, along with other factors, under the budget scorekeeping criteria of the Budget Enforcement Act, and OMB's lease scoring guidelines in OMB Circular A-11, to determine if the lease cost should be scored against the agency's budget as an operating lease or a capital lease. Capital leases are required, for budget purposes, to be recorded at their full cost at the time of lease award, while operating leases are allowed to be recorded on an annual rent basis.

### **Staffing and Training**

OFM's Real Property Service is comprised of a staff of 15 realty specialists, contracting officers and administrative support personnel. To ensure that VA maintains an effective leasing program, OFM in conjunction with VA's Office of Acquisition & Materiel Management (OAM&M) conducts periodic training of VA staff involved in leasing activities. Specialists and contracting officers are also required to have training in accordance with GSA guidelines. Field specialists and contracting officers are required to have lease training before they are allowed to acquire space and administer leases. Training includes formal classes and on-the-job training. OFM has recently completed a Lease Design Guide that can be found on OFM's Technical Information Library at the office's website. In addition, Real Property Service also has a Lease Handbook that can be found on the Real Property Webpage. The Lease Handbook is a step-by-step guide to acquiring space through the simplified or standard lease acquisition processes.

### **Enhanced Use-Leasing**

In addition to these traditional leasing programs, VA also has been granted Enhanced-Use Leasing authority. This unique asset management tool, managed jointly by the Office of Asset Enterprise Management (OAEM) and OFM, provides VA an innovative process to partner with the private sector to maximize return from underutilized capital assets. Currently, VA can outlease property to other parties for up to 75 years for "fair consideration." The fair consideration can be in the form of cash, services, space or other in-kind consideration. The program was authorized by law in 1991 (38 U.S.C. § 8161, et seq), and was recently modified and re-authorized until 2011. VA has successfully developed projects giving veterans access preference and discounts for the usage of Assisted Living, Transitional Homeless Housing and Homeless Services facilities without the use of appropriated funds. The program results included significant cost savings compared to construction and leasing; substantial private investment in the Department's capital facilities and infrastructure; and, new long-term sources of revenues.

Mr. Chairman, this concludes my opening statement and I would be pleased to answer any questions you or the members of the Committee may have.