

GAO

Testimony

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Committee on Veterans' Affairs, House of
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VA HEALTH CARE

**Overview of VA's Capital
Asset Management**

Statement of Mark L. Goldstein, Director
Physical Infrastructure



GAO

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Highlights of [GAO-09-686T](#), a report to Subcommittee on Health, Committee on Veterans' Affairs, House of Representatives

Why GAO Did This Study

Through its Veterans Health Administration (VHA), the Department of Veterans Affairs (VA) operates one of the largest integrated health care systems in the country. In 1999, GAO reported that better management of VA's large inventory of aged capital assets could result in savings that could be used to enhance health care services for veterans. In response, VA initiated a process known as Capital Asset Realignment for Enhanced Services (CARES). Through CARES, VA sought to determine the future resources needed to provide health care to our nation's veterans.

This testimony describes (1) how CARES contributes to VHA's capital planning process, (2) the extent to which VA has implemented CARES decisions, and (3) the types of legal authorities that VA has to manage its real property and the extent to which VA has used these authorities. The testimony is based on GAO's body of work on VA's management of its capital assets, including GAO's 2007 report on VA's implementation of CARES (GAO-07-408).

What GAO Recommends

GAO is not making recommendations in this testimony, but has previously made a number of recommendations regarding VA's capital asset management. VA is at various stages of implementing those recommendations.

View [GAO-09-686T](#) or [key components](#). For more information, contact Mark L. Goldstein at (202) 512-2834 or goldsteinm@gao.gov.

VA HEALTH CARE

Overview of VA's Capital Asset Management

What GAO Found

The CARES process provides VA with a blueprint that drives VHA's capital planning efforts. As part of the CARES process, VA adapted a model to estimate demand for health care services and to determine the capacity of its current infrastructure to meet this demand. VA continues to use this model in its capital planning process. The CARES process resulted in capital alignment decisions intended to address gaps in services or infrastructure. These decisions serve as the foundation for VA's capital planning process. According to VA officials, all capital projects must be based on demand projections that use the planning model developed through CARES.

VA has started implementing some CARES decisions, but does not centrally track their implementation or monitor the impact of their implementation on its mission. VA is in varying stages (e.g., planning or construction) of implementing 34 of the major capital projects that were identified in the CARES process and has completed 8 projects. Our past work found that, while VA had over 100 performance measures to monitor other agency programs and activities, these measures either did not directly link to the CARES goals or VA did not use them to centrally monitor the implementation and impact of CARES decisions. Without this information, VA could not readily assess the implementation status of CARES decisions, determine the impact of such decisions, or be held accountable for achieving the intended results of CARES. VA has recently created the CARES Implementation Working Group, which has identified performance measures for CARES and will monitor the implementation and impact of CARES decisions in the future.

VA has a variety of legal authorities available, such as enhanced-use leases, sharing agreements, and others, to help it manage real property. However, legal restrictions and administrative- and budget-related disincentives associated with implementing some authorities affect VA's ability to dispose and reuse property in some locations. For example, legal restrictions limit VA's ability to dispose of and reuse property in West Los Angeles and Sepulveda. Despite these challenges, VA has used these legal authorities to help reduce underutilized space (i.e., space not used to full capacity). In 2008, we reported that VA reduced underutilized space in its buildings by approximately 64 percent from 15.4 million square feet in fiscal year 2005 to 5.6 million square feet in fiscal year 2007. While VA's use of various legal authorities likely contributed to VA's overall reduction of underutilized space since fiscal year 2005, VA does not track the overall effect of using these authorities on space reductions. Not having such information precludes VA from knowing what effect these authorities are having on reducing underutilized or vacant space or knowing which types of authorities have the greatest effect. According to VA officials, VA will institute a system in 2009 that will track square footage reductions at the building level.

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to testify on the Department of Veterans Affairs' (VA) management of its capital assets. As you know, VA operates one of the largest health care systems in the country. VA, through its Veterans Health Administration (VHA), provided health care to almost 5.5 million veterans in 2008.¹ To support its mission, VA has a large inventory of real property—including over 150 medical centers and over 900 outpatient and ambulatory care clinics. However, many of VA's facilities were built more than 50 years ago and are not well suited to providing accessible, high-quality, cost-effective health care in the 21st century. In 1999, we reported that with better management of its large, aged capital assets, VA could significantly reduce the funding used to operate and maintain underused, unneeded, or inefficient properties.² We further noted that the savings could be used to enhance health care services for veterans. Thus, we recommended that VA develop market-based plans for realigning its capital assets. In response, VA initiated a process known as Capital Asset Realignment for Enhanced Services (CARES)—a comprehensive, long-range assessment of its health care system's capital asset requirements. The CARES process included nine distinct steps and required the time and expertise of many VA officials at the departmental and network levels.³ (See table 1.)

¹VHA is primarily responsible for VA's health care delivery to the veterans enrolled for VA health care services and operates the majority of VA's capital assets.

²GAO, *VA Health Care: Capital Asset Planning and Budgeting Need Improvement*, [GAO/T-HEHS-99-83](#) (Washington, D.C.: Mar. 10, 1999).

³VA's health care delivery system is divided into 21 health care delivery networks. For example, one network serves veterans in Alabama, Georgia, and South Carolina.

Table 1: Steps of the CARES Process

Step 1:	VA officials at the departmental and network level develop market areas and submarkets as the planning units for analyzing veterans' needs.
Step 2:	VA officials at the departmental level conduct market analyses of veterans' health care needs using standardized forecasts of enrollment and service needs and actuarial data.
Step 3:	VA officials at the departmental level identify planning initiatives that addressed apparent gaps between supply and demand in resources for each market area.
Step 4:	VA officials at the Network level consider different alignment alternatives and develop specific plans for individual markets that addressed all the planning initiatives identified by VA officials at the departmental level.
Step 5:	The Under Secretary of Health uses the market plans to prepare a Draft National CARES Plan (DNCP) and recommendations.
Step 6:	The Secretary of Veterans Affairs appoints a commission composed of non-VA executives to make recommendations to the Secretary to accept, present alternatives to, or reject the recommendations contained in the DNCP.
Step 7:	The Secretary of Veterans Affairs decides whether to accept, reject, or modify the commission's recommendations concerning the DNCP.
Step 8:	Network officials implement the Secretary's decisions.
Step 9:	VA officials at the departmental level refine and incorporate CARES planning initiatives into the annual strategic planning cycle.

Source: VA.

According to VA, the CARES process was a onetime major initiative. However, its lasting result was to provide a set of tools and processes that allow VA to continually determine the future resources needed to provide health care to our nation's veterans. In May 2004, the Secretary stated that implementing CARES decisions will require an additional investment of approximately \$1 billion per year for at least the next 5 years, with substantial infrastructure investments then continuing for the indefinite future, to modernize VA's aging infrastructure. Although CARES will require substantial investment, the Secretary noted that not proceeding with CARES would require funding to maintain or renovate obsolete facilities and would leave VA with numerous redundant, outmoded, or poorly located facilities. The Secretary further stated that through the CARES process, VA had developed more complete information about the demand for VA health care and a more comprehensive assessment of its capital assets than it had ever done before. The Secretary noted that this information, along with the experience gained through conducting CARES, positioned VA to continue to expand the accuracy and scope of its planning efforts.

In my statement today, I will discuss (1) how CARES contributes to VHA's capital planning process, (2) the extent to which VA has implemented CARES decisions, and (3) the types of legal authorities that VA has to manage its real property and the extent to which VA has used its

authorities to reduce underutilized and vacant property. My comments are based on our extensive body of work on VA's management of its capital assets, including recent reviews of VA's implementation of CARES and management of real property, as well as updated information from VA officials.⁴

Background

Over the past decade, VA's system of health care for veterans has undergone a dramatic transformation, shifting from predominantly hospital-based care to primary reliance on outpatient care. As VA increased its emphasis on outpatient care rather than inpatient care, it was left with an increasingly obsolete infrastructure, including many hospitals built or acquired more than 50 years ago in locations that are sometimes far from where veterans live.

To address its obsolete infrastructure, VA initiated its CARES process—the first comprehensive, long-range assessment of its health care system's capital asset requirements since 1981. CARES was designed to assess the appropriate function, size, and location of VA facilities in light of expected demand for VA inpatient and outpatient health care services through fiscal year 2022. Through CARES, VA sought to enhance outpatient and inpatient care, as well as special programs, such as spinal cord injury, through the appropriate sizing, upgrading, and locating of VA facilities. Table 2 lists key milestones of the CARES process.

⁴GAO, *VA Health Care: Capital Asset Planning and Budgeting Need Improvement*, T-HEHS-99-83 (Washington, D.C.: Mar. 10, 1999); GAO, *VA Health Care: VA Should Better Monitor Implementation and Impact of Capital Asset Alignment Decisions*, [GAO-07-408](#) (Washington, D.C.: Mar. 21, 2007); GAO, *VA Health Care: Additional Efforts to Better Assess Joint Ventures Needed*, [GAO-08-399](#) (Washington, D.C.: Mar. 28, 2008); and GAO, *Federal Real Property: Progress Made in Reducing Unneeded Property, but VA Needs Better Information to Make Further Reductions*, [GAO-08-939](#) (Washington, D.C.: Sept. 10, 2008). These performance audits and our updated work were conducted in accordance with generally accepted government auditing standards.

Table 2: Key CARES Milestones

Date	Milestone	Description
February 2002	VA announced the results of a pilot CARES study.	The pilot study assessed current and future use of health care assets in the three markets of Network 12, which includes parts of five states: Illinois, Indiana, Michigan, Minnesota, and Wisconsin. It resulted in decisions to realign health care services and renovate or dispose of several buildings consistent with VA's mission and community zoning issues.
August 2003	VA Under Secretary for Health presented the DNCP.	The Under Secretary's DNCP included recommendations about health care services and capital assets in VA's remaining 74 markets. These recommendations reflected input from managers of VA's health care networks.
February 2004	An independent CARES Commission issued recommendations.	An independent 16-member commission appointed by the Secretary of Veterans Affairs issued recommendations to the Secretary based on its review of the DNCP and related documents and information obtained through public hearings, site visits, public meetings, written comments from veterans and other stakeholders, and consultations with experts.
May 2004	VA Secretary announces the CARES decisions.	The Secretary based his decisions on a review of the CARES Commission's recommendations.
January 2005	CARES follow-up studies.	VA awarded a contract for additional studies at 18 VA facilities. These studies included evaluating outstanding health care issues, developing capital plans, and determining the best use for unneeded VA property consistent with VA's mission and community zoning issues.
May 2008	CARES follow-up studies.	All 18 studies are completed.

Source: GAO analysis of VA data.

We have previously reported that a range of capital asset alignment alternatives were considered throughout the CARES process, which adheres to capital planning best practices.⁵ Moreover, there was relatively consistent agreement among the DNCP prepared by VA, the CARES Commission appointed by the VA Secretary to make alignment recommendations, and the Secretary as to which were the best alternatives to pursue. Although the Secretary tended to agree with the CARES Commission's recommendations, the extent to which he agreed varied by alignment alternative. In particular, the Secretary always agreed with the commission's recommendations to build new facilities, enter into enhanced use leases, and collaborate with the Department of Defense and universities, but was less likely to agree with the CARES Commission's recommendations to contract out or close facilities. The decisions that emerged from the CARES process will result in an overall expansion of VA's capital assets. According to VA officials, rather than show that VA should downsize its capital asset portfolio, the CARES process revealed

⁵GAO-07-408.

service gaps and needed infrastructure improvements. We also reported that a number of factors shaped and in some cases limited the range of alternatives VA considered during the CARES process. These factors included competing stakeholder interests; facility condition and location; veterans' access to facilities; established relationships between VA and health care partners, such as DOD and university medical affiliates; and legal restrictions.

The challenge of misaligned infrastructure is not unique to VA. We identified federal real property management as a high-risk area in January 2003 because of the nationwide importance of this issue for all federal agencies. We did this to highlight the need for broad-based transformation in this area, which, if well implemented, will better position federal agencies to achieve mission effectiveness and reduce operating costs. But VA and other agencies face common challenges, such as competing stakeholder interests in real property decisions. In VA's case, this involves achieving consensus among such stakeholders as veterans service organizations, affiliated medical schools, employee unions, and communities. We have previously reported that competing interests from local, state, and political stakeholders have often impeded federal agencies' ability to make real property management decisions. 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.⁶

CARES Process and Modeling Tools Drive VHA's Capital Planning Efforts

Through the CARES process, VA gained the tools and information needed to plan capital investments. As part of the CARES process, VA modified an actuarial model that it used to project VA budgetary needs. According to VA, the modifications enabled the model to produce 20-year forecasts of the demand for services and provided for more accurate assessments of veterans' reliance on VA services, capacity gaps, and market penetration rates.⁷ The information provided by the model allowed VA to identify

⁶GAO, *High-Risk Series: Federal Real Property*, [GAO-03-122](#) (Washington, D.C.: January 2003) and GAO, *Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform*, [GAO-07-349](#) (Washington, D.C.: April 2007).

⁷We did not evaluate the reliability of the model or its projections.

service needs and infrastructure gaps, in part by comparing the expected location of veterans and demand for services in years 2012 through 2022 with the current location and capacity of VA health care services within each network. In addition to modifying the model, VA conducted facility condition assessments on all of its real property holdings as part of the CARES process. These assessments provided VA information about the condition of its facilities, including their infrastructure needs. VA continues to use the tools developed through CARES as part of its capital planning process. For example, VA conducts facility condition assessments for each real property holding every 3 years on a rotating basis. In addition, VA uses the modified actuarial model to update its workload projections each year, which are used to inform the annual capital budget process.

The CARES process serves as the foundation for VHA's capital planning efforts. The first step in VHA's capital budget process is for networks to submit conceptual papers that identify capital projects that will address service or infrastructure gaps identified in the CARES process.⁸ The Capital Investment Panel, which consists of representatives from each VA administration and staff offices, reviews, scores, and ranks these papers. The Capital Investment Panel also identifies the proposals that will be sent forward for additional analysis and review, and may ultimately be included as part of VA's budget request. According to VA officials, all capital projects must be based on the CARES planning model to advance through VHA's capital planning process. On the basis of CARES-identified infrastructure needs and service gaps, VA identified more than 100 major capital projects in 37 states, the District of Columbia, and Puerto Rico.⁹ In addition to these projects, the CARES planning model identified service needs and infrastructure gaps at other locations throughout the VA system. The model is updated annually to reflect new information.

VHA's 5-year Capital Plan outlines CARES implementation and identifies priority projects that will improve the environment of care at VA medical facilities and ensure more effective operations by redirecting resources

⁸CARES conceptual papers are created at the network level and provide a detailed description of the project, the problem the project will address, and other relevant information.

⁹The term "major capital project" refers to a project for the construction, alteration, or acquisition of a medical facility involving a total expenditure of more than \$10 million. (See 38 U.S.C. §8104.) In contrast, a "minor capital project" refers to the construction, alteration, or acquisition of a medical facility involving a total expenditure of \$10 million or less.

from the maintenance of vacant and underutilized buildings to investments in veterans' health care. In VA's fiscal year 2010 budget submission, VA requested about \$1.1 billion to fund 12 VHA major construction projects and about \$507 million for VHA minor construction projects.

Some CARES Decisions Implemented, but Additional Information Needed to Fully Assess Status and Impact of Decisions

VA has begun implementing some CARES decisions. Specifically, VA is currently in varying stages (e.g., planning or construction) of implementing 34 of the major capital projects that were identified in the CARES process. Eight major capital CARES projects are complete.

Although VA is moving forward with the implementation of some CARES decisions, we previously reported that a number of VA officials and stakeholders, including representatives from veteran service organizations and local community groups, view the implementation process as too lengthy and lacking transparency.¹⁰ For instance, stakeholders in Big Spring, Texas, noted that it took almost 2 years for the Secretary to decide whether to close the facility. During this period, there was a great deal of uncertainty about the future of the facility. As a result, there were problems in attracting and retaining staff at the facility, according to network and local VA officials. We also previously reported that a number of stakeholders we spoke with indicated that the implementation of CARES decisions has been influenced by competing stakeholders' interests—thereby undermining the process.¹¹ In its February 2004 report, the CARES Commission also noted that stakeholder and community pressure can act as a barrier to change, by pressuring VA to maintain specific services or facilities.

In 2007, we reported that VA does not use, or in some cases does not have, performance measures to assess its progress in implementing CARES or whether CARES is achieving the intended results. Performance measures allow an agency to track its progress in achieving intended results. Performance measures can also help inform management decision making by, for example, indicating a need to redirect resources or shift priorities. In addition, performance measures can be used by stakeholders, such as veterans' service organizations or local communities, to hold agencies accountable for results. Although VA has over 100 performance measures to monitor other agency programs and activities, these measures either do

¹⁰GAO-07-408.

¹¹GAO-07-408.

not directly link to the CARES goals or VA does not use them to centrally monitor the implementation and impact of CARES decisions.¹² We also reported that VA lacked critical data, including data on the cost of and timelines for implementing CARES projects and the potential savings that can be generated by realigning resources.

Given the importance of the CARES process, we previously recommended that VA develop performance measures for CARES. Such measures would allow VA officials to monitor the implementation and impact of CARES decisions as well as allow stakeholders to hold VA accountable for results. In responding to our recommendation, VA created the CARES Implementation Monitoring Working Group. This working group has identified performance measures for CARES and the group will monitor the implementation and impact of CARES decisions.

VA Has A Variety of Legal Authorities to Manage Real Property, But Does Not Track How Using Them Contributes to the Reduction in Underutilized Property

VA has a variety of legal authorities available to help it manage real property. These authorities include enhanced-use leases (EUL), sharing agreements, and outleases. (See table 3 for descriptions of these authorities.) VA uses these authorities to help reduce underutilized and vacant property. For example, in 2005, in Lakeside (Chicago), Illinois, VA reduced its underutilized property at the medical center by nearly 600,000 square feet by using its EUL authority with Northwestern Memorial Hospital. VA also uses these authorities to generate financial benefits. For example, the VA Greater Los Angeles Healthcare System enters into a number of sharing agreements with the film industry. VA officials told us that these agreements are typically temporary arrangements—sometimes lasting a few days—during which film production companies use VA facilities to shoot television or movie scenes. According to VA officials, these agreements generate roughly \$1 million to \$2 million a year.

¹²Officials from the Office of Asset Enterprise Management told us that they had information on the status of CARES projects that were included in the 5-year capital plan, but that they did not track the status of all CARES decisions.

Table 3: Major Types of Authorities Available to VA

Authority	Definition	Proceeds
Enhanced-use leases (EUL) 38 U.S.C. §§ 8161-8169	VA leases underutilized or vacant property to a public or private entity for up to 75 years if the agreement enhances the use of the property or results in an improvement of services to veterans in the network in which the property is located. The EUL shall be for fair consideration, and lease payments may be monetary or be made for in-kind consideration, such as construction, repair, or remodeling of department facilities; providing office, storage, or other usable space; or for services, programs, or facilities that enhance services to veterans.	Proceeds generated from the EUL are used to pay for expenses incurred by VA in connection with the EUL and can be used for any expense incurred in the development of future EULs. Any remaining funds are to be deposited in the VA Medical Care Collections Fund. At the discretion of the VA Secretary, proceeds also may be deposited into construction major project and construction minor project accounts to be used for construction, alterations, and improvements of any medical facility.
Sharing agreements 38 U.S.C. §§ 8151-8153	VA may enter into sharing agreements to provide the use of VHA space (including parking, recreational facilities, and vacant land) for the benefit of veterans or nonveterans in exchange for payment or services if VA's resources would not be used to their maximum effective capacity and would not adversely affect the care of veterans. Sharing agreements do not convey an interest in real property and can be entered into for up to 20 years, with the initial term not to exceed 5 years.	Proceeds generated from sharing agreements are to be credited to the applicable department medical appropriation of the facility that furnished the space.
Outlease 38 U.S.C. § 8122 38 U.S.C. § 2412	<p>VA's outlease-related authorities include the following:</p> <p><i>Outlease:</i> VA may lease real property to public or private interests outside of VA for up to 3 years, or up to 10 years for a National Cemetery Administration (NCA) property. Lease payments may be made for maintenance, protection, or restoration of the property as part of the consideration of the lease.</p> <p><i>License:</i> Gives a nonfederal party permission to enter upon and do a specific act or series of acts upon the land without possessing or acquiring any estate therein. A license can be revoked at any time.</p> <p><i>Permit:</i> Gives another federal agency permission to enter upon and do a specific act or series of acts upon the land without possessing or acquiring any estate therein. The permit can be revoked at any time.</p>	Proceeds generated from outleases of VHA space, minus expenses for maintenance, operation, and repair of buildings leased for building quarters, are deposited into the Department of the Treasury as miscellaneous receipts. Proceeds generated from outleases of NCA property are to be deposited into the NCA Facilities Operation Fund and are available for costs incurred by NCA for operations and maintenance of NCA property. Proceeds generated from licenses and permits are deposited into the Department of the Treasury.

Source: GAO.

However, legal restrictions associated with implementing some authorities affect VA's ability to dispose of and reuse property in some locations. For example, legal restrictions limit VA's ability to dispose of and reuse property in West Los Angeles and North Hills (Sepulveda) California. The

Cranston Act of 1988 precluded VA from taking any action to dispose of 109 of 388 acres in the West Los Angeles medical center and 46 acres of the Sepulveda ambulatory care center.¹³ In 1991, when EUL authority was provided to VA, VA was prohibited from entering into any EUL relating to the 109 acres at West Los Angeles unless the lease was specifically authorized by law or for a childcare center.¹⁴ The Consolidated Appropriations Act of 2008 expanded the EUL restrictions to include the entire West Los Angeles medical center.¹⁵ The Consolidated Appropriations Act of 2008 also prohibits VA from declaring as excess or otherwise taking action to exchange, trade, auction, transfer, or otherwise dispose of any portion of the 388 acres within the VA West Los Angeles medical center.

Budgetary and administrative disincentives associated with some of VA's available authorities may also limit VA's ability to use these authorities to reduce its inventory of underutilized and vacant property. For example:

- VA cannot retain revenue that it obtains from outleases, revocable licenses, or permits; such receipts must be deposited in the Department of the Treasury.¹⁶ VA has said that, except for EUL disposals, restrictions on retaining proceeds from disposal of properties are a disincentive for VA to dispose of property.¹⁷
- In 2004, VA was authorized until 2011 to transfer real property under its jurisdiction or control and to retain the proceeds from the transfer in a capital asset fund for property transfer costs, including demolition, environmental remediation, and maintenance and repair costs.¹⁸ In our previous work, we reported several administrative and oversight challenges with using capital asset funds.¹⁹ Moreover, VA officials told us that this authority has significant limitations on the use of any funds

¹³P.L. No. 100-322, Section 421(b)(2), 102 Stat. 487, 553 (1988).

¹⁴38 U.S.C. § 8162(c).

¹⁵P.L. No. 110-161, Section 224(a), 121 Stat. 1844, 2272 (2007).

¹⁶38 U.S.C. § 8122.

¹⁷38 U.S.C. § 8164.

¹⁸38 U.S.C. § 8118.

¹⁹GAO, *Capital Financing: Potential Benefits of Capital Acquisition Funds Can Be Achieved through Simpler Means*, [GAO-05-249](#) (Washington, D.C.: Apr. 8, 2005).

generated by disposal. For example, VA officials we spoke with reported that the capital asset fund is too cumbersome to be used, and VA does not have immediate access to the funds because they have to be reappropriated before VA can use them.

- The maximum term for an outlease, according to VHA law, is 3 years; according to VA officials, this time limit can discourage potential lessees from investing in the property.
- Implementing an EUL agreement can take a long time. According to VA officials, EULs are a relatively new tool, and every EUL is unique and involves a learning process. In addition, VA officials commented that the EUL process can be complicated. According to VA officials, the average time it takes to implement an EUL can range generally from 9 months to 2 years. The officials noted that land due diligence requirements (such as environmental and historic reviews), public hearings, congressional notification, lease drafting, negotiation, and other phases contribute to the length of the overall process. VA has taken actions to reduce the time it takes to implement an EUL agreement, but despite changes to streamline the EUL process, some officials stated that it is still time consuming and cumbersome.
- VA can dispose of underutilized and vacant property under the McKinney-Vento Act to other federal agencies and programs for the homeless.²⁰ However, VA officials stated that disposing of property under the McKinney-Vento Act also can be time-consuming and cumbersome.²¹ According to VA officials, the process can average 2 years. Under this law, all properties that the Department of Housing and Urban Development deems suitable for use by the homeless go through a 60-day holding period, during which the property is ineligible for disposal for any other purpose. Interested representatives of the homeless submit to the Department of Health and Human Services (HHS) a written notice of their intent to apply for a property for homeless use during the 60-day holding period. After applicants have given notice of their intent to apply, they have up to 90 days to submit their application to HHS, and HHS has the discretion to extend the time frame if necessary. Once HHS has received an application, it has 25 days to review, accept, or decline the application.

²⁰VA properties that are leased to another party under an EUL are not considered to be unutilized or underutilized for purposes of the McKinney-Vento Act (see 38 U.S.C. § 8162).

²¹We have reported elsewhere on this process. See GAO, *Federal Real Property: Most Public Benefit Conveyances Used as Intended, but Opportunities Exist to Enhance Federal Oversight*, [GAO-06-511](#) (Washington, D.C.: June 21, 2006).

Furthermore, according to VA officials, VA may not receive compensation from agreements entered into under the McKinney-Vento Act.

Despite these challenges, VA has used these legal authorities to help reduce its inventory of unneeded space. In 2008, we reported that VA reduced underutilized space (i.e., space not used to full capacity) in its buildings by approximately 64 percent from 15.4 million square feet in fiscal year 2005 to 5.6 million square feet in fiscal year 2007.²² Although the number of vacant buildings decreased over the period, the amount of vacant space remained relatively unchanged at 7.5 million square feet. We estimated VA spent \$175 million in fiscal year 2007 operating underutilized or vacant space at its medical facilities.²³

While VA's use of various legal authorities, such as EULs and sharing agreements, likely contributed to VA's overall reduction of underutilized space since fiscal year 2005, VA does not track the overall effect of using these authorities on its space reductions. Without such information, VA does not know what effect these authorities are having on its effort to reduce underutilized or vacant space or which types of authorities have the greatest effect. We concluded that further reductions in underutilized and vacant space will largely depend on VA developing a better understanding of why changes occurred and what impact these agreements had. Therefore, we recommended in our 2008 report that VA track, monitor, and evaluate square footage reductions and financial and nonfinancial benefits resulting from new agreements at the building level by fiscal year in order to better understand the usefulness of these authorities and their overall effect on VA's inventory of underutilized and vacant property from year to year.²⁴ The officials said that tracking financial benefits will require a real property cost accounting system which VA is in the process of developing. According to VA officials, VA will institute a system in June 2009 that will track square footage

²²See [GAO-08-939](#). The underutilized square footage numbers that we report are different from those that VA reports. Our analysis only included underutilized square feet, whereas when VA measures its rate of utilization, it adds together underutilized square feet and overutilized square feet (additional square feet needed at a facility).

²³GAO developed this estimate because VA does not track the cost of operating underutilized and vacant building space at the building level and has not developed a reliable method for doing so.

²⁴[GAO-08-939](#).

reductions at the building level, but the system will not track financial benefits at this level.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to questions from you or other Members of the Subcommittee.

GAO Contact and Staff Acknowledgments

For further information on this statement, please contact Mark L. Goldstein at (202) 512-2834 or goldsteinm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony were Nikki Clowers, Hazel Gumbs, Edward Laughlin, Susan Michal-Smith, and John W. Shumann.

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