



**U.S. House of Representatives**  
**Committee on Transportation and Infrastructure**

Washington, DC 20515

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Chairman

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Ranking Member

June 14, 2012

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**BRIEFING MEMORANDUM**

**TO:** Members of the Subcommittee on Economic Development, Public Buildings and Emergency Management  
**FROM:** Subcommittee on Economic Development, Public Buildings and Emergency Management Staff  
**SUBJECT:** Oversight Hearing on "Sitting on Our Assets: The Georgetown Heating Plant"

**PURPOSE**

The Subcommittee on Economic Development, Public Buildings and Emergency Management will meet on Tuesday, June 19, 2012, at 10:00 a.m., at the Georgetown Heating Plant located at 1051 29<sup>th</sup> Street, NW, Washington, D.C. to receive testimony from the General Services Administration (GSA). The hearing will focus on the costs to the taxpayer of underperforming or vacant assets and ensuring that the process for the planned sale of the Georgetown Heating Plant provides the highest return to the taxpayer.

**BACKGROUND**

To address the problem of vacant and underutilized space, H.R. 1734 was introduced and passed the House in February of this year. H.R. 1734 would create a civilian BRAC-like process to create savings by shrinking the Federal footprint and selling or redeveloping under-used buildings. In February, the Subcommittee held its second hearing at the vacant Old Post Office Annex to further highlight the problems of vacant and underutilized space. Shortly before the hearing, GSA finally announced its selection of a developer, the Trump Organization, to redevelop that building after more than a decade of wasting taxpayer dollars. In addition, in March of this year, the Subcommittee held a hearing at the vacant Cotton Annex highlighting the continued problem of vacant federal buildings and underperforming assets.

## *General Services Administration*

The Subcommittee has jurisdiction over all of GSA's real property activity through the Property Act of 1949, the Public Buildings Act of 1959, and the Cooperative Use Act of 1976. These three Acts are now codified as title 40 of the United States Code. The Public Buildings Service (PBS) is responsible for the construction, repair, maintenance, alteration, and operation of United States courthouses and public buildings of the Federal Government. Additionally, PBS leases privately owned space for Federal use. GSA owns or leases 9,600 assets and maintains an inventory of more than 362 million square feet of workspace. GSA acts as the "landlord" for the Federal government, obtaining and managing space to meet the space needs of other Federal agencies. GSA, however, is just one of nine<sup>1</sup> Federal agencies that, in total, own or manage 93% of Federal real property.

## *Management Issues*

Given the vast real estate holdings of the Federal Government, poor asset management and missed market opportunities cost taxpayers significant sums of money. For this reason, in 2003, the Government Accountability Office (GAO) placed real property management on its list of "high risk" government activities where it remains today. GAO conducts biennial reviews on high-risk areas within the Federal Government to bring focus to specific areas needing added attention and oversight. Areas are identified as "high risk" due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement or areas that need broad-based transformation to address major economy, efficiency, or effectiveness challenges.

The key reasons the GAO identified Federal real property as high risk are:

- excess and underutilized real property,
- deteriorating and aging facilities,
- unreliable property data, and
- over reliance on costly leasing.<sup>2</sup>

Unfortunately, these problems persist despite executive orders and memoranda issued during two administrations and acts of Congress intended to improve the management of Federal real property.<sup>3</sup> The high risk activities of Federal real property are significant. Considerable amounts of vacant or underperforming assets can translate

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<sup>1</sup> The other major land-holding departments and agencies include the Department of Defense, Veterans Affairs, Department of Energy, Department of Homeland Security, Department of the Interior, Department of State, National Aeronautics and Space Administration, and the U.S. Postal Service.

<sup>2</sup> See *High Risk Series: Federal Real Property*, U.S. General Accountability Office, GAO-03-122, January 2003.

<sup>3</sup> See, for example, Executive Order 13327, Federal Real Property Asset Management, signed by President George W. Bush, February 4, 2004; Presidential Memorandum, Disposing of Unneeded Federal Real Estate, signed by President Barack Obama, June 10, 2010; Public Buildings Cooperative Use Act of 1976; Public Law 108-447, Division H, Title IV, Section 412, December 8, 2004 (providing enhanced flexibility to GSA in real property management).

into significant costs associated with their operation, maintenance, and security. For example, in fiscal year 2009, the Federal Government spent \$1.7 billion in annual operating costs for under-utilized buildings and \$134 million annually for excess buildings.<sup>4</sup>

### *GSA's Authorities*

The Committee has long advanced reforms to ensure GSA would have appropriate authorities to better manage Federal real estate. For example, the Committee approved two pieces of legislation in 2003 -- the Federal Property Asset Management Reform Act of 2003 and the Public Private Partnership Act of 2003 -- although the legislation was not enacted into law. Those pieces of legislation would have provided GSA authority to enter into public-private partnerships and lease back arrangements with private developers and retain the proceeds from sales. The core authorities proposed in the bills were similar to those enacted as part of the Southeast Federal Center Public-Private Development Act of 2000, which provided for the redevelopment of the Southeast Federal Center in Washington, D.C.

Permanent authorities were not enacted due in large part to changes in the scoring of public private partnerships by the Congressional Budget Office (CBO), which requires an accounting of liabilities of any future government leasing. The scoring changes disadvantaged actions that could be taken to minimize upfront costs to the taxpayer and leverage the government's interest in property. Those scoring changes also failed to take into account the costs avoided in having to construct new office space with taxpayer dollars.

However, the core authorities included in the reform legislation in 2003 were eventually enacted into law through section 412 of the FY 2005 Consolidated Appropriations Act, which allows GSA to retain net proceeds from dispositions of its real property through sale, lease, exchange, or otherwise, including leaseback arrangements. GSA also has authority under section 585 of title 40 of the U.S. Code to enter into 30 year ground leases with a private entity such as a developer and lease back the space.

The authorities contained in Sections 412 and 585 provide GSA with significant authority to sell or redevelop underutilized properties and enter into public private partnerships to offset costs associated with renovating or creating Federal space.

### *The Georgetown Heating Plant*

The Georgetown Heating Plant, also known as the West Heat Plant, was constructed in 1948 to provide steam to federal buildings on the west side of the city. The plant was decommissioned in 2000 and subsequently served as a fuel storage site and a parking facility for government vehicles. Since ceasing operation as a steam plant, the facility has cost the taxpayer more than \$3.5 million in operating expenses, despite the

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<sup>4</sup> FY2009 Federal Real Property Report, Federal Real Property Council, September 2010, p. 5.

fact that the facility sits in the densely developed area of Georgetown adjacent to high value real estate development.

The facility was only declared surplus property in November 2011, 11 years after it was closed as a steam plant. GSA is now commencing its marketing and appraisal efforts and intends to sell the property through a public sale targeted for the Fall of 2012. GSA intends the property to be sold "As-is, Where-is" and there is no indication as to how the local city agencies will zone the site for private use. However, immediately surrounding the facility is dense commercial and residential development, including retail, hotels, and residences.

The Georgetown Heating Plant is an example of an underperforming building that if sold or redeveloped to better use could provide a positive return to the taxpayer. While GSA is now proceeding to a sale of the facility that sat idle for 12 years, maximizing the return to the taxpayer of this high value asset is critical.

**WITNESS**

Mr. Flavio Peres  
Deputy Assistant Commissioner  
Real Property Utilization and Disposal  
U.S. General Services Administration