

**CAN A CIVILIAN BRAC COMMISSION
CONSOLIDATE FEDERAL OFFICE SPACE
AND SAVE TAXPAYERS BILLIONS?**

(112-22)

HEARING
BEFORE THE
SUBCOMMITTEE ON
ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, AND
EMERGENCY MANAGEMENT
OF THE
COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES
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FIRST SESSION

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U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

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April 1, 2011

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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: Legislative Hearing on "Can a Civilian BRAC Commission Consolidate Federal Office Space and Save Taxpayers Billions?"

PURPOSE

The Subcommittee on Economic Development, Public Buildings and Emergency Management will meet on Wednesday, April 6, 2011, at 10:00 a.m., in 2167 Rayburn House Office Building to receive testimony from the Office of Management and Budget, the General Services Administration (GSA), the Government Accountability Office (GAO), and the Chairman of the 2005 Department of Defense (DoD) Base Realignment and Closure (BRAC) Commission. The hearing will focus on whether a civilian BRAC process can effectively consolidate federal office space, maximize value to the taxpayer, and save taxpayers billions.

BACKGROUND

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 nine¹ 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 economic, 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.²

Unfortunately, despite executive orders and memoranda issued during two administrations and acts of Congress intended to improve the management of federal real property, these problems persist.³ The GAO noted recently in the 2011 High Risk report issued in February 2011 that some progress has been made in some of these areas but that “federal agencies continue to face long-standing problems, such as overreliance on leasing, excess property, and protecting federal facilities.”⁴

The high risk activities of Federal real property are significant. Considerable amounts of vacant or underperforming assets can translate 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 underutilized buildings and \$134 million, annually, for excess buildings.⁵

¹ 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.

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

³ 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).

⁴ High Risk Series: Managing Federal Real Property, U.S. General Accountability Office, GAO-11-278, February 2011, p. 58.

⁵ FY2009 Federal Real Property Report, Federal Real Property Council, September 2010, p. 5.

BRAC

The Base Realignment and Closure process was first established by Congress through the Defense Base Closure and Realignment Act of 1988. Its purpose was to create a basic framework for the realignment and disposal of DoD properties. The BRAC process was also intended to establish a fair process of evaluating DoD's space needs and determining the best space solutions for DoD facilities. Since 1988, there have been five rounds of BRAC, with the most recent commission established in 2005.

The BRAC process first involves DoD collecting data about its facilities and establishing standards and criteria to evaluate those facilities. Applying those standards and criteria, DoD then develops recommendations on base closures and realignments. Those recommendations are sent to the independent BRAC Commission for review. The BRAC Commission is comprised of nine individuals and the President is required to consult with Congress on six of the nine selections. The commission then determines if DoD followed its standards and criteria and reviews the associated data to determine if changes to the recommendations are appropriate. The BRAC Commission may make revisions; however, those revisions are limited in scope. The BRAC Commission then submits its recommendations to the president, who in turn must forward all recommendations to Congress or none. If the President disapproves of the BRAC recommendations, BRAC can revise and resubmit to the President. If the President then approves of the revisions the recommendations can be transmitted to Congress. Congress must affirmatively disapprove of the recommendations within a specified period of time and if Congress does not disapprove of the recommendations, the BRAC recommendations are implemented.

Civilian BRAC

This year, the President included in the proposed Fiscal Year 2012 Budget Section 735, a civilian BRAC process. Like the DoD BRAC, agencies would submit recommendations to a commission for review. The provisions included in the president's budget submission provide some detail of the proposal; however, the administration is expected to submit a more detailed legislative proposal in the near future.

The committee is also drafting a legislative solution that would use a BRAC-like process to address persistent problems in the management of federal buildings and real properties. Some key principles and issues the committee is examining include:

- Maximize Return to the Taxpayer: Ensuring the process maximizes the return to the taxpayer by emphasizing the highest and best use for properties. If the process only produces a "fire sale" of vacant federal properties (most of which may have little value), real reforms and savings will be missed.
- Maximize Space Utilization: Putting more people in less space and improving and standardizing the utilization rates of our public buildings across the board will be key to long-term savings.
- Reduce the Reliance on Costly Leasing: Maximizing utilization and consolidating space will facilitate the movement of people out of costly, long-term leased space.

- Create Value in Underperforming Assets: Redeveloping underused properties may in some cases create more value for the taxpayer than selling the property.
- Strengthening Management and Controls: Improving the overall management and controls related to federal properties will minimize wasteful decisions. For example, through eliminating disparate leasing authorities exercised by certain agencies outside of GSA's oversight significant taxpayer dollars can be saved. Just last year, the Securities and Exchange Commission (SEC), which has authority independent of GSA to lease, signed a \$500 million, 10-year lease for 900,000 square feet that the agency later determined it did not need.

Conclusion

The hearing will assist the committee in understanding the administration's proposal, identifying lessons learned from BRAC, and exploring key elements and issues that should be addressed in legislation.

WITNESSES

The Honorable Daniel I. Werfel
Controller, Office of Management and Budget

The Honorable Martha Johnson
Administrator
U.S. General Services Administration

Mr. David J. Wise
Director, Physical Infrastructure Team
U.S. Government Accountability Office

Accompanied by:
Mr. Brian Lepore
Director, Defense Capabilities and Management Issues
U.S. Government Accountability Office

The Honorable Anthony J. Principi
Former Secretary, US Department of Veterans Affairs
Chairman, 2005 Defense Base Realignment and Closure Commission

**CAN A CIVILIAN BRAC COMMISSION
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WEDNESDAY, APRIL 6, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC
BUILDINGS, AND EMERGENCY MANAGEMENT,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:04 a.m., in Room 2167, Rayburn House Office Building, Hon. Jeff Denham (Chairman of the subcommittee) presiding.

Mr. DENHAM. The subcommittee will come to order.

First, let me welcome our distinguished witnesses and thank them for their testimony today. We carefully selected each of you because of your past experience or current responsibilities for managing Federal real estate on behalf of the American people. Given our trillion-dollar deficit and skyrocketing debt, we must examine every area of government and look for ways to cut spending.

I first proposed a civilian BRAC commission at our subcommittee's first hearing in February, and the President proposed a commission in his 2012 budget. The purpose of today's hearing is to find out if a civilian BRAC commission can save billions of taxpayer dollars by consolidating and realigning Federal real estate property.

In recent years, the GAO identified billions of dollars of waste through mismanagement, overbuilding, and an overreliance on costly leased space to meet long-term housing needs. In Chairman Mica's report, "Sitting on our Assets," we learned billions of dollars of taxpayer assets sit idle or even lose taxpayer money year after year. And on a bipartisan basis, this committee has struggled to house Federal employees in the most cost-effective manner possible.

I believe the potential to save billions of dollars is very real. The question is: Can a civilian BRAC commission cut through the red tape and political turf battles to save taxpayers money and do it quickly?

For example, if all the commission achieves is a fire sale of worthless properties in one of the worst real estate markets in our lifetime, then we shouldn't expect to save much money at all. Fortunately, the administration recognizes this very same problem. I am very pleased the President made Federal real estate a national

priority by including it in his State of the Union Address and his budget.

Given our discussions with OMB and GSA, I am hopeful we can agree on the goals for a commission and work together to move a bill through Congress. To achieve \$15 billion in savings, I believe the commission will have to focus on a few goals or principles to reform. The commission will need to first consolidate the footprint of Federal real estate; second, house more Federal employees in less overall space; third, reduce our reliance on costly lease space; fourth, sell or redevelop high-value assets that are underutilized or too valuable for housing Federal employees; and fifth, dispose of surplus property more quickly.

I believe a commission that uses these five principles to guide its decision can save the \$15 billion we all believe is there. I would like to elaborate on these principles so we can discuss them further during the question and answer period of the hearing.

At the end of the day, the total cost to house the Federal Government is directly proportional to how much real estate we have hold. To save money, we will have to consolidate that footprint. To consolidate, we must house more Federal employees in less space. Fortunately, there are tremendous opportunities for savings in this area.

There is just one example of GSA consolidation using three different properties that were leased or owned and now renovating the GSA headquarters, consolidating and giving us an opportunity on two separate buildings.

The private sector has been increasing its utilization rates for over a decade—and a commission can achieve the same results in the Federal Government. Reducing expensive leased space is another principle necessary for a successful commission.

There is a second example. The Postal Service used a private developer to transfer a rundown money pit with a great location. This in turn gave \$150 million in revenue and a fully renovated building without any taxpayer money. While the government retained ownership of this property, in other cases selling may generate the greatest savings for the taxpayer.

Finally, we have to dispose our surplus property more quickly. I believe these guiding principles should help inform the development of any legislative solution, and I look forward to discussing them with our witnesses.

Again, I want to thank each of you for being here today.

I would now like to recognize Ranking Member Norton from the District of Columbia for 5 minutes to make any opening statement she may have.

Ms. NORTON. Thank you very much, Mr. Chairman.

Good morning, and welcome to our witnesses. I want to thank you, Chairman Denham, for calling today's hearing on the administration's proposal found in section 735 of the fiscal year 2012 budget to create an independent Civilian Property Realignment Board tasked with making recommendations for the realignment and consolidation of Federal real estate, much like the Department of Defense Base Realignment and Closure, known as BRAC.

The proposed board has the potential to be a valuable and rational tool for providing a source of revenue for the Federal Govern-

ment to maintain existing buildings and to fund real estate management, not to mention, of course, what this might mean for the Federal deficit. The President's proposed board would dispose of unneeded and underutilized real estate and would consolidate Federal real estate functions where appropriate.

Last year, President Obama issued a government-wide memo that ordered agencies to reduce their real estate footprint. This proposal before us today represents the administration's sustained priority on addressing the management of Federal real estate activities. I applaud the administration's efforts in the fiscal year 2012 budget to explicitly address Federal real estate in a comprehensive manner.

In 2003, the Federal Accounting Office placed GAO—placed real estate management on its list of high-risk government activities, where it remains today. Both this committee and GAO repeatedly have registered serious concerns about the way Federal real property has been managed. I am especially pleased, therefore, that the current administration has continued to build on its initial efforts to right-size the Federal real estate portfolio by issuing a memorandum requiring all Federal agencies to reduce their real estate footprint and now by proposing legislation for an independent board.

Much like BRAC, the administration's proposed board would conduct an analysis of the inventory of Federal civilian property. The board would obtain recommendations from Federal agencies on civilian real estate that could be sold, transferred, consolidated, collocated, or reconfigured to reduce the civilian real property inventory and operating costs of the Federal Government. After performing that analysis, the board would conduct public hearings on the recommendations of the agency.

At a minimum, the board would submit a report on its findings twice a year to the Director of the Office of Management and Budget. Upon receipt of the board's recommendations, OMB would conduct a review of the report and would take into consideration the views and recommendations of the Federal agencies within 25 days of receiving the board's report. If the OMB director approves the board's recommendation, the director would submit the recommendations to Congress.

Conversely, as with BRAC, if OMB disapproves the board's recommendation in whole or in part, the director would then transmit to the board and to Congress the reason for its disapproval. The board would then be required to transmit to OMB a revised list of recommendations. If OMB approved the revised recommendations, it would then transmit the recommendations to Congress.

After OMB's transmission of its recommendations to Congress, Congress would have 45 days to pass a joint resolution disapproving the recommendations. If Congress fails to pass a joint resolution, the board's recommendations would gain legal force and agencies would commence with recommended activities. Proceeds from sale of properties would be split between deficit reduction and covering the costs of agencies to dispose of the property, consolidate, relocate, and reconfigure activities.

The administration's proposal would offer a new and more powerful tool to identify underutilized Federal properties that could help

move agencies out of leased space and would allow the sale of real estate where appropriate. Just as importantly, the board would be highly instrumental in reconfiguring, co-locating, and realigning the Federal real estate portfolio.

It is impossible to know without a rigorous inventory and analysis whether surplus property equals valuable property in dollars and cents or if the Federal Government is really sitting on billions of dollars of underutilized surplus properties for which there is a market. Now is the time to find out, however, and to provide the country with at least one alternative to the mindless slash-and-burn approach in use in the House at the moment to reduce the deficit.

In contrast, an independent board to assess the real estate needs of agencies would thoughtfully and rationally right size the real estate portfolios of agencies that often lack the expertise to make strategic real estate decisions. Astonishingly, although the General Services Administration is charged with managing and developing Federal Government properties and leases, there are at least 23 holding agencies currently controlling Federal real estate. Most of these agencies have missions unrelated to property and property consolidation.

However, according to GAO, the GSA alone holds 282 excess or otherwise underutilized buildings that cost \$93 million annually to operate. One of the most prominent of these properties, the priceless, historic treasure, the Old Post Office, had to be pried loose by a bill I introduced and got passed into law with strong bipartisan House and Senate support.

At the same time, this subcommittee must always take the broad view of real estate. Although I believe the Civilian Property Realignment Board can serve an important missing role in disposing of unneeded real estate, the administration's proposal does not require the sale of real estate assets in a soft market or the sale of properties that hamstring the government's ability to house Federal employees in the future.

Expert and specialized skill is necessary to dispose of underutilized real estate assets while avoiding selling property the government could need in the future, leading to long-term leasing because of haphazard disposal of underutilized real estate.

For example, the Federal Government was wise to maintain the St. Elizabeths property in the District of Columbia. The government could not have foreseen the need to establish the Department of Homeland Security. However, there has never been enough space to consolidate agencies in the district, and St. Elizabeths was a 176-acre federally owned property in the Nation's Capital. Preserving the land on which the Department of Homeland Security agencies are now being consolidated from leased space will save the government billions upon billions of dollars in the future.

Property that does not fit the long-term real estate needs of the local government should be sold. However, this subcommittee will want to be just as alert about redeveloping its property to earn revenue before the government, like the Old Post Office Building, whose request for proposals was just issued finally last week, and Hotel Monaco, developed from the old Tariff Building, which quickly began to provide a return annually to the Federal Government.

The Old Post Office building is a prime example today of taking an underutilized property that was operating at a loss and converting it into revenue-producing property for Federal taxpayers. Ironically, Congress had to force this change by statute, over the objection of the Office of Management and Budget.

For years, OMB has held on to GSA real estate because of the absence of staff real estate expertise at OMB. If OMB is to take on the responsibility envisioned in the administration's proposal, I will require that OMB finally bring on its staff expert staff with specific real estate and redevelopment and development experience, a complete hole at OMB that has been there through Democratic and Republican administrations, to the great loss of taxpayers, of which the Old Post Office is only the most prominent example.

I support the concepts contained in the administration's proposal for a Civilian Property Realignment Board to meet the goal of rightsizing the Federal real estate portfolio and saving taxpayers billions of dollars. Now it is up to our subcommittee to quickly pass bipartisan legislation that puts this proposal to work. I look forward to the testimony of today's witnesses to help with this task.

Thank you, Mr. Chairman.

Mr. DENHAM. Thank you. I would like to welcome our witnesses here today. Our first panel will be the Honorable Daniel Werfel, Controller of the Office of Management and Budget; and the Honorable Martha Johnson, Administrator of the General Services Administration.

Welcome.

I ask unanimous consent that our witnesses' full statements be included in the record.

Without objection, so ordered.

Since your written testimony has been part of the record, the subcommittee will request that you limit your oral testimony to 5 minutes.

Mr. Werfel, you may proceed.

TESTIMONY OF THE HONORABLE DANIEL I. WERFEL, CONTROLLER, OFFICE OF MANAGEMENT AND BUDGET; AND THE HONORABLE MARTHA JOHNSON, ADMINISTRATOR, U.S. GENERAL SERVICES ADMINISTRATION

Mr. WERFEL. Thank you, Chairman Denham, Ranking Member Norton, Congressman Crawford, and other members of the subcommittee, for the invitation to discuss the President's Civilian Property Realignment Act proposal with you today.

Each year, the Federal Government wastes taxpayer dollars on thousands of unneeded or underutilized government properties. We need to take immediate steps to take advantage of the many opportunities that have already been identified to date and simultaneously move forward on additional and more transformational possibilities.

For this reason, the President advanced a bold new approach in the fiscal year 2012 budget to right-size the Federal real estate inventory. The President's proposal would create an independent board to achieve long-term and sustainable reductions in real estate-related operating costs and energy use, convert unneeded real

estate into reductions in the Federal deficit, and adapt the government's real property to the 21st century.

As part of the Accountable Government Initiative, President Obama has consistently made real property reform a priority. Last June, the President issued a memorandum entitled "Disposing of Unneeded Federal Real Estate" and ordered agency leaders to take aggressive action to reduce their real estate footprints. Agencies have made good progress, identifying \$1.7 billion toward meeting the \$3 billion savings goal by the end of fiscal year 2012.

However, our work with agencies on real estate has made it apparent that even larger savings opportunities lie within our grasp but cannot be implemented with the traditional tools available for managing our real property assets.

There are three basic barriers that have prevented more significant transformations of Federal real estate and thus have prevented more significant savings: Red tape, financial disincentives, and politics. The President's proposal builds off the best practices of a proven approach, the Department of Defense's Base Realignment and Closure program, or BRAC, to address and overcome each such barrier.

Specifically, for properties identified by the board as candidates for realignment, the board will push through red tape by eliminating the one-size-fits-all approach to the process that exists in the Federal inventory today; leverage proceeds and other savings as a way to incentivize agencies to initiate changes to their real estate that have a positive return on investment for the taxpayer, while still dedicating a substantial amount of savings for deficit reduction; and third, find resolutions to competing stakeholder interests that can stymie or progress.

The last point merits further emphasis. Proposals by the Federal Government to vacate or sell real estate affect numerous stakeholder interests. These competing interests create a powerful disincentive against progress. Like BRAC, the envisioned board would overcome this challenge by bundling its recommendations as a package that succeed or fail together. Furthermore, like BRAC, Congress would have 45 days to consider the recommendations, with no ability to line-item veto a property in the package. Instead, Congress' sole option would be either to endorse or reject the whole package.

The President's budget for 2012 includes the initial legislation for standing up this board and this process. Shortly, the administration will submit for congressional consideration a fuller, more detailed legislative proposal that builds on the language in the President's budget.

The status quo in our real estate inventory is particularly unacceptable today when we have a pressing need to rein in our spending and reduce our deficits. By using the best practices from the BRAC model to address this issue, we can leverage our portfolio to improve services to the taxpayer, reduce the government's energy footprint, and reduce the deficit.

It is time for a bold new step. I invite you to support the Civilian Property Realignment Act and help bring about a transformation of real property management in the government today.

Thank you for inviting me to testify. I look forward to answering your questions.

Mr. CRAWFORD. [presiding.] Thank you, Mr. Werfel.

Administrator Johnson, you may proceed.

Ms. JOHNSON. Thank you. Good morning, Chairman Denham, Ranking Member Norton, Congressman Crawford, and members of the subcommittee. I am honored to join you today.

In the President's fiscal year 2012 budget the administration announced an effort to accelerate the disposal and consolidation of the Federal Government's civilian properties. This initiative anticipates working with Congress to optimize asset utilization, increase disposals of unneeded assets, and streamline the disposal process to help the government realize billions of dollars in savings.

I appreciate the opportunity today to discuss GSA asset management and our role in property disposition government wide. Through our experiences and expertise with the disposal process, we hope to assist in forming a successful civilian property initiative that helps the government meet our responsibilities to taxpayers to spend every dollar effectively.

GSA has a large real estate portfolio. Yet the broader Federal Government portfolio is even more extensive. GSA manages the Federal Real Property Profile, which is the government's database of owned and leased assets. Of the total government 429,000 building assets, GSA controls approximately 9,000. Less than 3 percent of GSA's portfolio has been classified as under or non-utilized.

Since 2002, GSA has disposed of over 200 GSA properties, totaling more than 9.5 million square feet. These properties represent 5 percent of our own portfolio and eliminated \$484 million in anticipated repair needs. GSA works diligently to identify unneeded assets for disposal, yet it is important to note that not all properties labeled as underutilized are available for sale. In fact, most of GSA's underutilized properties are not candidates for disposition. More than half of these properties are either undergoing major modernizations or being backfilled with tenants from leased space or are being reassigned to agencies with new requirements.

GSA works aggressively to renovate and renew assets to achieve greater utilization. Of the 14,000 assets categorized as excess in the FRPP, 138 are GSA excess assets, 114 of which are now in the disposal process. In the last 10 years, GSA has disposed of over 3,300 government-wide assets valued at \$8.5 billion; 260 of these assets were GSA-owned.

The disposal process begins when a Federal agency determines that it no longer has a mission need for an asset and reports the property as excess. A property reported as excess, however, may not necessarily be slated for disposal, since some may be demolished or have costly or time-consuming cleanup requirements. If there is no valid need for the property within the Federal Government after 30-day period, it is considered surplus and offered to other public organizations such as State, county, and city governments and not-for-profit organizations. These local entities can acquire the property through a negotiated sale at fair market value or through a public benefit conveyance for specific uses, including homeless assistance, historic monuments, educational purposes, and law enforcement needs.

GSA conducts a public sale if there is no public benefit or negotiated sale. Dispositions must also comply with a variety of environmental and historic preservation requirements, which can require considerable time and funding.

The disposal process is an iterative and deliberate process with a number of statutory requirements that seek to strike a balance between social and economic policy objectives. This process, I must note, can be time-consuming, as it involves many stakeholders, associated political interests, community expectations, environmental factors, and regulatory reviews. These variables often manifest themselves in competing interests, creating inefficiencies and driving increased time and cost.

The administration is interested in legislation that will increase the number of assets available for disposal and expedite the disposal process. The President's proposed Civilian Property Realignment Act will help Federal agencies accomplish this goal while the improving the efficiency and effectiveness of Federal disposals and saving taxpayer funds.

I appreciate the leadership of both the chairman and the ranking member on this matter and your sincere interest in moving this issue forward. Thank you for the opportunity to be with you today. I welcome your questions.

Mr. DENHAM. [presiding.] Thank you, Administrator Johnson.

At this time, I would like to yield the first 5 minutes of questioning to Vice Chairman Crawford, as he has scheduling challenges this morning.

Mr. CRAWFORD. Thank you, Mr. Chairman.

I thank you, Administrator Werfel, for being here.

I have a quick question for you. I understand the administration believes there are \$15 billion in potential savings. I am curious, how did you arrive at that number? Is that a realistic number? And what is the timeline on those savings?

Mr. WERFEL. Thank you, Congressman.

The President set out a target last year in a memo in June for the government to eliminate \$3 billion in real estate or essentially save \$3 billion by taking critical steps. We started working with agencies toward those goals and looking for different opportunities to realign real estate.

It is during that work with each agency that we recognized that there were bolder, broader and more aggressive savings opportunities that were potentially available but not achievable in today's current legal and regulatory and political environment. And so we started doing some more research into those opportunities to size them up.

And what we saw were essentially two types of opportunities emerging. One was the potential sale of very high-value assets, a limited number of high-value assets that the United States Government owns across the country that, for a variety of different reasons, in particular and probably most pressing, the competing stakeholder interests that would be involved in surfacing these assets and moving forward to vacate them, that if sold, they would generate a very high return on investment. Obviously, we would have to take into account real estate market realities. But even in today's real estate market it, is our belief that some of these assets

would generate a very high rate of return if pushed through to sale.

The other opportunity that emerged, in addition to the limited number of high-value assets, are consolidations of numerous—actually, thousands of field offices around the country. We have agencies today that have offices, for example, in every county in America, which does not, we believe, reflect the way benefits and services are delivered in the post-Internet or in the 21st century. And so to begin to consolidate some of these thousands of properties into a more rational approach, even though they are small in each individual case, once you start consolidating them more aggressively, you get an aggregate savings amount that we think would be substantial.

So we looked at these two opportunities and started to map them out and figure out what we thought was achievable in the short term. And we believe that \$15 billion in savings is achievable within the first 3 years that the board that we envision is up and running and be able to make recommendations to Congress.

Mr. CRAWFORD. Thank you.

The BRAC process started with the Defense Department developing criteria and standards and applying them to its properties in order to develop recommendations for the commission. In the case of a civilian BRAC, who would you recommend develop the criteria and standards that would be applied to Federal properties across the government?

Mr. WERFEL. I think there can be some broad criteria. One of the things mentioned in GAO's testimony is their suggestion that as we approach a civilian BRAC, we think about some of the criteria. We have taken that point to heart and are looking at that as we get ready to submit our more detailed legislative proposal on this. The proposal that is in the budget is more of a summary version. And we are working on a detailed version.

Some of those proposals I think are at a very high level. Obviously, the importance around making sure that we are maximizing the return for the taxpayer in terms of deficit reduction; that we are thinking about the impact on the local community; that we are thinking about ensuring that as our real estate realigns, we are maximizing how that supports agency mission. There are environmental considerations. So I think that there are some general frameworks that we can work through.

I think that the board itself, its mission and what it is going to be charged with, is to apply and balance those various factors as they look at these different realignment opportunities. So I think our vision would be to set out working together between the President and Congress a high-level set of parameters that push for the interests that I just described, in particular always looking out for the taxpayer before anything else. And then the board would apply those on a case by case basis and figure out what the optimal outcome is in each real estate opportunity.

Mr. CRAWFORD. Thank you, sir.

I yield back.

Mr. DENHAM. Thank you, Mr. Crawford.

Ms. Norton.

Ms. NORTON. Thank you very much, Mr. Chairman.

Before I get to the property questions, I would like to ask Administrator Johnson about the current effect or the effect on GSA if H.R. 1 were passed. The reason I ask that question is that for the entire period of my service in the Congress, GSA has had huge understaffing problems, loss of expertise because expertise is very valuable in the private sector. What would the effect of H.R. 1 be on the GSA appropriation?

Ms. JOHNSON. Thank you for the question.

I can summarize sort of estimates about it. First of all, it would basically demolish our capital program this year, so we would not be able to pursue the projects that are underway, and significantly that would include work on the St. Elizabeths headquarters for DHS, and some other projects; putting in jeopardy the Coast Guard's ability to move into—finish and move into their new headquarters.

We estimate there would be approximately 16,000 jobs that would be lost as a result of this. It all depends upon the length of the way it calculates out, but there could be a point at which we would also be unable to meet some of the obligations in our leases.

The other piece that particularly concerns me is around our open government and our electronic government work, so that we wouldn't be able to share the huge amount of data that we are currently putting up in the same way because we would not have funding to continue much of that.

Ms. NORTON. May I ask you, Administrator Johnson, this committee has always pressed GSA to get as many agencies out of leased space into owned space. How will the Civilian Property Realignment Board—or will it assist the agency in meeting this mandate? Has it thus far in the properties you have sold? You say that 9.5 million square feet of property has been sold. Has it helped at all with this budget-saving issue?

Ms. JOHNSON. Frankly, the GSA would be quite delighted if our balance of leasing were less. We would welcome the rebalancing of our portfolio much more towards owned space, simply because that returns revenue into the building fund and allows us into the future to be able to fund the portfolio and the maintenance and repair and new construction. So the formula is such that I can say that I would be delighted if we can figure out more ways of moving out of leases and into owned.

Ms. NORTON. You are not into at the moment realigning or using space for the purpose of getting people in owned space, but you are disposing of property at the moment.

Ms. JOHNSON. When we are disposing of property, I think we are rightsizing our owned inventory. I don't think that the properties that move into disposal are ones that—first of all, we assess whether or not there are opportunities across the Federal community to use that space. So there is a first tranche of work.

Ms. NORTON. So you don't think those properties are useful to the Federal Government at all.

Ms. JOHNSON. If they are moving through disposal, that is already a question that has been answered.

Ms. NORTON. The properties that will be in this process will be such properties.

Ms. JOHNSON. I would assume so. They fit the criteria and that there would be no use for them across the government. Yes.

Ms. NORTON. Let me ask you both; this is a very soft market. Suppose the BRAC Commission says, here, Congress, here is some property, dispose of them and you will get X amount of dollars. Anybody with any real estate expertise will say you will get twice that amount if you just wait a little while for the market to come back.

Will this commission be required to dispose of properties in a soft market, rendering less benefit to market concerns?

Mr. WERFEL. Congressman, I certainly know the board would not be required to sell off any set of assets.

Ms. NORTON. They would do the selling, right? It is they who would do the selling?

Mr. WERFEL. Well, here is how we envision it working: First of all, there would be an independent entity that would develop its own set of recommendations. We wouldn't say to the board, you must sell a certain number of assets. The board, I think—and I think the strength of this proposal and its success hinges tremendously on the quality and the talent of people that we can place on the board and staff them with—will have to make strategic judgments about the best decisions on behalf of the taxpayer. And in some cases, I think they will find situations in which assets are ready to be sold, are no longer needed, and will have a comfort level that even in today's real estate market the return price that they are getting is a fair one and it is in the best interest of them to move forward.

In some cases, I think you are right. They will make a judgment, a strategic judgment based on their real estate expertise that it might not be the right time, given the market realities of a certain location, for them to sell.

Ms. NORTON. We probably don't want to sell properties at a loss. Or say somebody who didn't know what they were doing reaped less for the Federal Government than if they had waited a year.

Mr. WERFEL. Absolutely. That is going to be incumbent upon the board to make those smart recommendations in terms of where and what sequence to approach these realignment opportunities. But to answer your question in terms of whether the board does the selling, once the board recommendations are through Congress, it would return back to GSA and the Federal agencies to implement those recommendations. So if there is a building within GSA's inventory that the board and through the congressional process is now authorized for direct sale to market, GSA would take on the responsibility to sell that asset.

Ms. NORTON. Thank you, Mr. Chairman.

Mr. DENHAM. Before I start my questions, Mr. Werfel, I just wanted to follow up on Mr. Crawford's question on the \$15 billion, is that new revenue, scored new revenue, or does that also include lease termination and other consolidation?

Mr. WERFEL. It combines not just proceeds but also operating cost savings as well. So if we were to eliminate a footprint of buildings and the associated operating costs, we would include that in the \$15 billion.

Mr. DENHAM. I know this is still—we are still dealing with rough estimates at this point, but how much of that is broken down just into liquidation of properties that are no longer needed?

Mr. WERFEL. Very roughly, I would say somewhere between \$9 billion and \$12 billion is the proceeds and the remainder are other efficiencies.

Mr. DENHAM. Thank you.

Included in the President's budget, there is a sketch of the administration's proposal. When do you expect to actually have the overall comprehensive language complete?

Mr. WERFEL. I think by the end of this month, and we will be able to submit it.

Mr. DENHAM. The private sector has been far ahead of the Federal Government in the efficient use of space and creating value out of failed assets. Do you believe there should be experts in private real estate development on a BRAC-like commission, and what type of composition do you see making up the entire commission?

Mr. WERFEL. I think there are absolutely—I think there are probably three primary skill sets that we want to make sure are represented on the board. Commercial real estate would be one of them. Government management, so that we can understand how the changing—so we can have expertise that understands how the changing real estate footprint intersects and impacts government mission. And the third I think is community development, so that we have expertise and understanding that when the Federal Government does leave a space or change its presence in a given locality, what the right approach is to make sure that the impact on the community is a positive one.

Mr. DENHAM. Thank you.

It is critical to establish key principles. So we have chatted about that briefly. But the five areas that I outlined in my opening testimony, I would just like to highlight each principle that I think is key and see if you agree with each of these being as part of the process. Consolidating the footprint of Federal real estate. Do you think that is one of the key principles?

Mr. WERFEL. Absolutely.

Mr. DENHAM. House more Federal employees in less overall space.

Mr. WERFEL. Yes.

Mr. DENHAM. Reduce our reliance on costly lease space.

Mr. WERFEL. Agree.

Mr. DENHAM. Sell or develop or redevelop high-value assets that are underutilized or too valuable for housing Federal employees.

Mr. WERFEL. Agreed.

Mr. DENHAM. And dispose of surplus property much quicker than we have done in the past.

Mr. WERFEL. Agreed. Those are very good principles.

Mr. DENHAM. Do you have others that you would include in this?

Mr. WERFEL. I think an important one—I think you hit most of them. I think we really are looking at energy efficiency. I think that is embedded in what you are saying. But I think it might be worth emphasizing that in particular, the real estate transformations that we are looking to achieve have multiple benefits, not only housing more people in one location, but a benefit of that

as implied is energy efficiency, which results in both positive environmental outcomes and operating cost outcomes.

I don't know, Martha, if you have anything.

Ms. JOHNSON. I think that is a very important aspect of this, and a growing one and one that has a high value to it.

Mr. DENHAM. And in energy efficiency, you are including the tenant improvements that would need to be made to any of our buildings and use that as part of our criteria of long-term planning. It is either going to be so expensive to renovate a 50- or 100-year-old piece of property or better to sell off.

Mr. WERFEL. That is correct.

Mr. DENHAM. I would just add one more, which I include embedded into those five principles as well, is a justification process; really, understanding what we are doing for the taxpayers, justifying each building based on similar principles that we have in the real estate market.

Ms. JOHNSON. Yes. I would include transparency in that so everyone can understand this as much as possible.

Mr. DENHAM. Thank you. Oftentimes, we make things way too difficult. Thank you.

Right now, we have space utilization all over the map. Space for employees can vary from 200 square feet per person to over a thousand, without any consideration of actual need or mission. How do we get more people in less space, standardized space utilization, and promote things like hoteling?

Ms. JOHNSON. One of my favorite subjects. Frankly, it is a many-pronged approach. I think we are at a time when work is changing, and how we deliver on our missions is changing tremendously and it is about capturing that cross hatch.

There is no question that the old rules about how much space you needed to do your job are changing as people pick up and move a great deal, need to be face-to-face with their customers, or their grantees or whatever, and not necessarily be sitting in a cubicle or, in the old industrial model, on an assembly line.

So we are in a whole different world of work. I think that there are a number of things, and GSA is eager and delighted to be playing a strong role, and we need to promote hoteling, telework, virtual work notions, and the performance management that is associated with this. These are culture changes as much as they are technology and policy changes; how to shift the workforce so that it is comfortable with moving around and not always reporting to duty in the same old way.

I think a large effort around consolidating and dealing with excess property and so on sends another signal into the system that we want to move away from traditionally thinking about work places as just space. Space is not the only thing we need to secure for people. We need to secure them technology and other types of work environments.

So hoteling specifically, we have terrific software. We are practicing with it in our own building. It is the kind of thing you come in and you sign up for a cubicle or space for as much time as you need and that then is reserved for you.

We are also doing some things like using our smart cards to be sure we know who has come in and out of the building, so we know

actually how many people are trafficking in a building. You might have a private office that is X number of square feet, but if you are never there, it is not being utilized; it is just showing your status and rank. So we are trying to gather that kind of data so we really understand the work patterns in agencies. These are dramatically changing. We have seen in the private sector just in the last 10 years really shift, and I think we are beginning to catch that wind, too.

Mr. DENHAM. Is there a specific modeling that you are going after. Secondly, a brief response, since we are short on time here; how do we incorporate these into the commission's decisions or into the commission's decisionmaking process?

Ms. JOHNSON. I think it is appropriate to challenge agencies around virtual work, around building the technology to support it and to encourage the changing of personnel policies that seem to be sometimes tightening the sense of what the work space is.

Mr. DENHAM. Thank you.

At this time, we will start our second round of questioning. I will start with Ranking Member Norton.

Ms. NORTON. Thank you, Chairman Denham.

I mentioned in my opening statement how concerned I was at the way in which OMB regards real estate and lack of expertise, frankly, in the agency on real estate and development, shown time and again to this subcommittee and our full committee. The reason, of course, is that OMB views real estate more as a liability than an asset with value that can be extracted to the benefit of the Federal Government.

The most poignant—outrageous even—example is the way scoring is done. Scoring is done for real estate in the very same way it is done for commodities. It makes the private sector wonder if the Federal Government knows what it is doing. And it puts GSA at a severe disadvantage.

I have a hard time understanding—and you both have got to make me, if you can, understand how OMB, as presently configured, with its present staff, could evaluate the recommendations of an agency, the civilian board, composed of real experts, all of whom have some kind of—will have some kind, as you have testified, of important experience related to its mission, how could the present OMB be the evaluator, given its track record? I don't even want to cite the one I cited in my testimony where, instead of looking at the cost benefit the way—you don't even have to be in the real estate business to do. First, OMB insisted upon keeping the Old Post Office because there were a handful of Federal agencies located there that could easily be tucked into any number of buildings. Then, when it ran out of that excuse, it wanted to sell a historic property, against Federal law. Then it just sat on it and ignored the mandate of this committee. That is the extent of its expertise. It was wasting Federal Government money. We were pumping about \$6 million into this building just to keep it alive and breathing.

Now you come before us—or maybe you don't; OMB will perhaps in the next panel—and say, make us the experts evaluating what the civilian board of experts recommended. I would like you to justify that proposal, if you can.

Mr. WERFEL. Well, Congresswoman, just to clarify that, I am representing the Office of Management and Budget today at this hearing. So we are here on the first panel.

Ms. NORTON. Well, by all means, speak up.

Mr. WERFEL. I will. I certainly will. There is a lot in your question. Let me start with the question about OMB expertise. I think it is important—and let me point out that I am a 14-year veteran at OMB, so I have been through a lot.

Ms. NORTON. I certainly hope you are not the one that held up the Old Post Office. If so, hold up your hand, so I can identify you for the public.

Mr. WERFEL. I did not have any personal involvement in the Old Post Office. I would point out that I am not sure that I would agree on the record until I could go back and confirm with my staff.

Ms. NORTON. Well, I am sure that on a bipartisan—you go back on the record and tell the record this, that the chairman—the full chairman of this committee at his first hearing compelled all of us—it was actually Chairman Denham's hearing. But the Old Post Office was of such concern to the full chairman that he took all of us to the annex, freezing annex, of the Old Post Office building for a hearing, where on the record—and I am amazed you don't know about it if you come here to testify today. On the record. You have to go back and check that up. On the record, the agency, GSA had to come before us—they who had nothing to do with holding up the Old Post Office—and testify. This I must tell you was a total insult to Congress.

You know why, Mr. Werfel? Because Congress passed a bill 3 years ago and told them to do it. And you have got to go back and check? You ought to go back and check before you come before this committee. Take our word for it.

The chairman was there, and I was there. Those are the facts. If those are the facts, that you held up the Old Post Office 3 years after we passed the bill, that you score real estate in the very same way that you score pencils, why should we give OMB the authority to supervise or evaluate what a board of experts recommends with respect to real estate owned by the Federal Government?

Mr. WERFEL. Congresswoman, if you allow me the opportunity, I think I can address each of your points.

First, I would like to start with OMB's expertise, since you raised the issue. I think it is a mistake to assume that OMB analyzes issues in a vacuum, with just OMB staff involved. The benefit of OMB—and it's our position in government—is we partner very closely—

Ms. NORTON. Will you use GSA's expertise? GSA is your real estate expert. Does your proposal contemplate using GSA's real estate expert, the only expertise in the Federal Government, to advise when you are doing the evaluation?

Mr. WERFEL. Absolutely. We have a partnership with GSA that is ongoing and that has been involved in certain—in real estate policy for decades.

Ms. NORTON. Do you think that it would be advisable for staff to be brought on in addition to assist in this way? The reason I have to ask that is because you ignored GSA entirely when they put the dollars and cents before you about the Old Post Office.

Frankly, Mr. Werfel, it was a complete outrage because there was a complete and total precedent, the Tariff Building, which in literally just a few years began to turn a profit for the government.

We had GSA before us time and time again and their answer was, well, it is at the OMB; it is at the OMB. Ultimately, we are sure you are the culprits because a statute had to be passed. And we have heard back some of the OMB's rationale for not moving ahead to make the highest and best use of real estate; for example, that you had agencies with less than 50 employees there and therefore you couldn't rehabilitate the Old Post Office in order to reap a benefit for the taxpayers.

I know I am over my time, Mr. Chairman.

Mr. DENHAM. I think the time has expired.

I would ask for a response. I would just remind this committee that we plan on being very involved in establishing the criteria with the administration in making sure that we see eye-to-eye as we move forward on this.

But the whole reason of setting a new commission up is to make sure that the travesty that has happened here over years of—over decades of a property sitting vacant and having to spend over \$6 million a year in costs annually and the fact that it took a bill coming out of Congress to get GSA to move, we want to take these types of challenges out of the process and go to a commission.

If you could do a quick response.

Mr. WERFEL. I appreciate the opportunity to respond. And there are just a couple of points I want to make sure that are stated on the record. First of all, it is my firm belief that the decisionmaking process and the analytics that are done at OMB on a daily basis have extreme integrity. And the notion that we would ignore directions from Congress or do anything that wasn't in the best interest of the taxpayer is completely inconsistent with every experience I have had at the Office of Management and Budget.

From an external view, I am sure there can be frustrations. And I understand those frustrations. And you voicing those frustrations is an important part of us improving our work on behalf of the President and on behalf of citizens.

But I want to make sure that I state clearly that any analysis that has gone on in OMB on any issue, in particular real estate or other management issues, is done with a tremendous dedication to public service and the right public policy outcomes.

Regarding how we would conduct ourselves with respect to the Civilian Property Realignment Board, I think one of the key points that I want to reemphasize is that we would closely partner with a broad base of expertise we have in the government today, that being GSA; it also being dedicated professionals throughout the government, other agencies, whether they be the Defense Department, the State Department, the Department of Homeland Security, and I could go on, to evaluate the proposals that the board would set forward in the same way that Congress will evaluate them.

The way the process works is the Director of OMB will review those proposals and, just like Congress, will have the ability to say yes or no to the entire slate and not line-item veto. We will leverage expertise from around government in the best way we know

how to evaluate whether those proposals will go forward. So I just want to be clear that OMB alone will not be analyzing the activities of the board. It will be a partnership across the Federal Government.

Mr. DENHAM. Thank you.

I wanted to just ask some questions relating back to my time in the State Senate dealing with the same issue. The critics—most vocal critics of any commission, any BRAC commission, have always said, why are you going to have a fire sale in a bad real estate market? My goal has never been to have a fire sale; it is actually to get the greatest value for our properties. How do we ensure we do that?

Mr. WERFEL. I think you are right, Congressman. I think a fire sale is certainly something to be avoided. I think the tension here is that in the one regard where it is hard to speculate what the real estate market is going to look like. It may be that in certain situations 5 or 10 years from now, if we wait, we are going to get a worse price than if we sell today. That is always the possibility.

Mr. DENHAM. You do have some properties that, regardless of whether we are at the highest market or lowest market, are so unique or the location is such that it is always going to be in demand.

Mr. WERFEL. That is true. I believe that there are assets within the Federal inventory that can be sold in 2011, and it is the right decision for the taxpayer, setting aside potential speculation that the real estate market may change just because there are certain segments of the U.S. economy and the geography where the real estate market is still somewhat strong and there is still a possibility for positive return on investment and significant benefit. One of the key points here that the board is going to weigh is that the proceeds from the sales not only are important to cut the deficit, but they also will be used to position the government to avail ourselves of further opportunities. I mentioned earlier that one of the barriers to success here is the financial disincentives that exist.

It sometimes costs a little bit of money to open up the door to a lot of savings. And that little bit of money, well, it is all depending on your perspective, but a modest amount of money has been often not within our reach or grasp.

So we may see the board make a decision that says look, we might not be getting top dollar for this asset today but we need the proceeds in order to open up the door to a broader set and a different set of real estate opportunities that will take place over the next 3, 5, 7 years. Again, it is the board's determination to make these challenging decisions, and we believe that having a board like the BRAC Commission will put us in a much better position to move through these issues and start making real progress.

Mr. DENHAM. Now one of the biggest challenges that I have always seen faced when we look at all of our properties or liquidation of properties or even a BRAC Commission is actually getting the right data, making sure every agency is complying with your requests so that there aren't properties that are out there hiding or agencies that are hoarding properties.

How do you expect to make sure that we always have up-to-date property lists, as well as evaluations from every department?

Mr. WERFEL. We have a process that exists today. In fact, I was happy to see that GAO commented favorably on the progress we have made in their testimony regarding the Federal inventory. And we started at a place prior to 2003 where our inventory was spotty and incomplete, and now we have a detailed tracking of just about every constructed or separate asset that the Federal Government owns or leases, and GAO is now—and they will testify in the next panel, but in their testimony they indicate that they have seen a dramatic—an improvement in the reliability of that information such that they now feel they can rely on that inventory.

But more work is needed, and we are looking to refine that inventory each and every day. You mentioned utilization before. You know, right now our utilization is captured on a very binary, is it under utilized or is it fully utilized. And we are moving more towards a specific quantifiable metric of how much it is utilized and that is going to help us and help the board make smarter decisions going forward.

Mr. DENHAM. And you have possession of that list today?

Mr. WERFEL. The list is maintained by GSA, yes.

Mr. DENHAM. We have asked for that informally several times. We would like to make a formal request today as a committee that we receive that list. It is my understanding this list or a similar list was given to the Senate—2 months ago? Quite awhile ago, and this committee continues to wait. So we would make that formal request to you today.

Mr. WERFEL. Absolutely. And any real estate information from the inventory that has been provided to your colleagues in the Senate we absolutely commit we will provide to you in short order.

Mr. DENHAM. Thank you. And it should be more up to date according to your testimony, that we should be able to get the new and improved list, whatever that may be?

Mr. WERFEL. That is correct. The asset information that we provided to the Senate—and just to clarify, they asked for information regarding our excess asset list and we can certainly provide that. I think at the time we provided it, it was 2009 data. We should be able to provide you the 2010 data.

Mr. DENHAM. We are not just looking for excess or surplus, we would like to see an inclusive list, the same list that we are going to be asking our new commission to look at and evaluate, we would like to evaluate that as well.

Mr. WERFEL. And Congressman, on that let me just comment that that list has not been provided to the Senate. And the reason is, is because there are security issues associated with the entire footprint of the Federal assets inventory. Right now that information is maintained in a system by GSA that has a lot of controls and IT security surrounding it. And the reason is, is because our colleagues at the Defense Department and the Department of Homeland Security have identified certain security risks associated with the public disclosure of the entire Federal real estate footprint.

Mr. DENHAM. DOD properties or other properties?

Mr. WERFEL. All properties, including energy properties that might involve nuclear activities or other things like that. So you have got some sensitivity in some portions of our inventory. That

is not to say that we don't want to work with you to make sure that you have the information you need to do your job as chair of the subcommittee, it is just an important element that we need to work through with you.

Mr. DENHAM. I would assume you would be able to segregate that list from top secret properties versus properties that were open for public review?

Mr. WERFEL. It is something we certainly need to work with you on.

Mr. DENHAM. And then I would also assume that this committee with our top secret clearance would be able to evaluate at least in an informal process all the properties as well.

Mr. WERFEL. I think that is something we can work towards a logistical solution on. I will say that the number of properties provided to the Senate so far number 80,000. So we will get you that list. It will be a good starting point, but certainly we understand your concerns and we want to work with you towards a solution.

Mr. DENHAM. Thank you.

Ms. NORTON. We are aware of course that when we say properties everybody may see dollars and cents dancing in their heads. But GSA owns warehouses, it owns of course commercial space, it owns laboratories. Of the properties that you have sold, would you give us some sense of what kinds of properties these are? Are these commercial office space properties that somebody is going to perhaps use for that purpose? Are these warehouses? When you say "properties" that word can hide a lot when it comes to funds. Were you able to get the amount of money you wanted? Any amount looks good to us, but did you evaluate how much you thought the property should bring against how much it brought? Those are the kinds of questions I have.

Ms. JOHNSON. Certainly by the time we get to the point of entering a negotiated public sale we are very clear on what the value of that asset is and what would be a reasonable negotiation to get to. And there is a whole range of property, it is office buildings, warehouses, it is also tracts of land. And there is an individual and a localized market for many of these things, although, yes, government property at times is unique and has some special aspects to it that are also part of the valuation. So I can give you a more detailed list of the breakdown of what we have disposed of in the last X number of years.

Ms. NORTON. That would be very, very helpful. You know, how much of this is land, the places where it is located. I mentioned St. Elizabeths. You know, there might have been people who got up and said why don't we just get rid of that? It certainly was a blight on the District of Columbia. That would have been the most foolish decision we ever made.

Ms. JOHNSON. Right.

Ms. NORTON. As you say, it covers so many different kinds of properties that I am afraid Congress just sees examples of the office buildings up here and thinks of how good they look and just see dollars and cents just flowing in to bring down the deficit. I think we ought to get a realistic sense of what these properties are and whether you got full dollar for the properties based on your own negotiation.

Ms. JOHNSON. Certainly, and it goes to my point about transparency. I think the more people can see what kind of portfolio we have they can really appreciate what we are talking about in real terms, whether it is proceeds or whether it is operating expenses.

Ms. NORTON. Understanding the locations would be interesting as well. Properties in land scarce places like big cities might be very different from properties located in a rural area that was once very much more populated than it is today, for example?

Ms. JOHNSON. Yes. You are always threading that needle whether or not it is a fire sale and whether or not in that local real estate market there is going to be a tipping that you will do in that market because of size or the impact.

Ms. NORTON. What would you do in that case?

Ms. JOHNSON. Well, I think we have to evaluate each of those and be very, very careful to include the community, include all the public interest groups that are registering questions and concerns, and that is part of where this process can get.

Ms. NORTON. So if the Federal Government were to sell a piece of property in an area it could affect real estate values throughout the area?

Ms. JOHNSON. I think often—I think the number is we have over 1 million square feet in over 40 cities. So you think about the impact and the size of our footprint, yes, we do need to be very sensitive to that. And it is about communicating, it is about transparencies, holding the open town meetings or whatever so people know what is going on and get their questions answered.

Ms. NORTON. A final question on the Old Post Office. Ms. Johnson, when the GSA released its request for expression of interest 3 years ago, this was after the statute had passed, then all work stopped. So the people had spent a lot of money offering expressions of interest, and GSA simply was silent and didn't move.

In light of that experience, very disappointing experience, I am going to have to ask you what assurances you can give this committee that once the solicitation period for the RFP on the Old Post Office is complete that GSA will be allowed to proceed in the development of the Old Post Office and how long you think that will take.

I am also asking Mr. Werfel whether OMB is now out of it and hands off of the process that has proceeded at GSA. So first I want to ask Ms. Johnson.

Ms. JOHNSON. The RFP was issued in the middle of March and we are expecting responses, the deadline is in July. So we are looking at a couple months where people are putting together their proposals. And we will—I am quite committed. I have been hearing about the Old Post Office for a long time. I would be delighted if we could move forward on this, and I will certainly be encouraging our people to be expeditious in assessing what those proposals are and working with the various partners to keep on moving.

Ms. NORTON. Mr. Werfel, does OMB have anything to say now that a process, a statutory process, is under way? Again people are being required to spend private capital in order to compete. Does OMB have anything further to say about this competitive process under way at the GSA?

Mr. WERFEL. Well, I am certainly pleased it has started and the fact the RFP started has issued I think is an important obvious milestone that we are moving ahead. I think OMB's role going forward just to work and partner with GSA to make sure that the process unfolds in a way that the best interest of the taxpayer is met and whatever outcome happens for the property. Those are the types of things that we will work with—

Ms. NORTON. What role would you have, Mr. Werfel? These people have to decide under statutory process that even—that is kept virtually under lock and key who wins the proposal based on competitive criteria. As I have indicated to you and you have not been able to demonstrate otherwise, this is not OMB's strong suit. So I want to know the exact nature of your partnering on an issue where you have not been a very good guardian of the taxpayers' money in partnering on properties like the Old Post Office.

Mr. WERFEL. We have certainly hit a point in the process right now where you are in a competitive procurement and it is important at that point to OMB to distance ourselves from the specific agency decisionmaking process. But again, I think that as a global matter to the extent GSA requests any advice or consultation with OMB on the process going forward within bounds and making sure we are not involved in a particular procurement, we would assist. You know, the specifics of our partnership are we each bring different expertise to the table and together we hopefully come out with the right public policy outcome in each case.

Ms. NORTON. This is the table where the statute does not contemplate your attendance. If this committee were to find out that you were interfering with statutory competitive processes, OMB is who would be in trouble. And I warn you because OMB has had a record, has been disgraceful.

Mr. Chairman, I want to say it has been so disgraceful that I will not support any legislation without certain kinds of guarantees in it. First of all, Mr. Werfel, I do not, in response to your response to me, question the good faith of OMB. I don't question your hard work. I question OMB's good judgment and I question OMB's expertise in real estate. And there is nobody who has served on this committee for any period of time who would not have many examples that document that.

In light of that, I will not support any legislation that does not require OMB to have expert staff in real estate, not only, Mr. Chairman, because of the new civilian board that is contemplated, but because this committee I have seen for 20 years hindered in carrying out the taxpayers' work because of the OMB, who is supposed to be the guardian of the taxpayer. So if all the administration is asking me to do is to give to OMB, the ranking member will not support that legislation without some part of a legislation that requires OMB to bring on board staff with expert and development expertise, not only because of its intervention in—required intervention in the civilian board, but because of the way OMB has handled real estate throughout my 20 years of service on this committee.

Thank you, Mr. Chairman.

Mr. DENHAM. Thank you. And we share a bipartisan view of that and we will make sure there is a guarantee in this bill as it moves forward. We certainly want your support on that.

I do have a few questions regarding the financing of this. In your testimony you talk about the net proceeds and how it will offset the up front costs. In the 2012 budget I think it scored at \$8 billion to set the Commission itself up. Can you explain in greater detail how that offset would be funded directly back to having an overall fund—the administration's proposal on the impact of GSA's fund?

Mr. WERFEL. Absolutely, Congressman. I believe the total appropriation that we are seeking to get the board up and running is \$87 million. A great significant portion of that is to fund certain capital investment—

Mr. DENHAM. 87 or 8.7?

Mr. WERFEL. 87, \$87 million. Let me explain that a great majority of that again is to finance relocation costs or other types of real estate transformations that are needed in the short term to trigger that first set of savings opportunities, because once you trigger that first set of savings opportunities, the fund becomes self-financing going forward and that is at least our vision.

So let's say you were to in the first set of recommendations expend 40 million of the dollars in order to pay for the associated costs of doing the first set of recommendations. Let's say those first set of recommendations yield back \$3 billion in proceeds. So you have just spent \$40 million to establish a revenue back to the Federal Government of billions of dollars. Sixty percent of those go right to deficit reduction, 40 percent come back to the board for the fund. And now they are moving forward with a fund that is going to enable them to do even more broader transformations that enable an even larger footprint of savings, and that is the vision. So we hope this is a one-time appropriation.

Mr. DENHAM. Is there a cap on that fund?

Mr. WERFEL. I am not aware there is a cap on the fund.

Mr. DENHAM. But obviously at 40 percent you could see—

Mr. WERFEL. Yes. At 40 percent it is a minimum of 60 percent back to deficit reduction. The board at their discretion could change that. And then Congress moving forward of course, as we have experienced with this, could change the percentage as well.

Mr. DENHAM. And the DOD used an accounting system called COBRA to evaluate the cost and savings to assist in developing its recommendations to the BRAC Commission. Do you believe COBRA is the best system or do you have another system that you would be recommending for the accounting aspect of this?

Mr. WERFEL. I think we would look at COBRA as a starting point. But we might need to make adjustments to the system given the civilian footprint has just different parameters associated with it. So we would start there, but we would look potentially at modifications.

Mr. DENHAM. And on the lease side of things obviously there are a number of glaring examples of leases that are at least questionable, others that are just an outright waste. One of them I would like to highlight is last year the Securities and Exchange Council signed a 10-year lease for 900,000 square feet of prime office space here in DC that it did not need. Unfortunately, our committee has

seen similar types of bad decisions by other agencies that have managed to get independent leasing authority apart from GSA. We could get a bill passed and go through this process only to see those efforts undermined by future agency decisions.

How would the administration's proposal affect future decisions in Federal agencies and making sure there is not an agency out there doing some type of rogue lease that puts taxpayers accountable for hundreds of thousands or millions of dollars?

Mr. WERFEL. I think you have got to fight the war on two fronts. I think first of all working with GSA we need to make sure that we are putting up the appropriate roadblocks to agencies entering into costly and noneconomically smart leases. I also think that the board activities would—

Mr. DENHAM. Are you saying redefine GSA's authority so that all leasing authority goes under GSA?

Mr. WERFEL. No.

Mr. DENHAM. Because that is part of the challenge now is you have agencies out there doing their own thing—

Mr. WERFEL. I am not suggesting that as a particular proposal. What I am suggesting is that GSA can play—and Martha can speak to this—can play an important role. As agencies come to them for GSA to serve as their leasing agent, that GSA can push back and make sure that we are only moving forward on lease arrangements that make economical sense.

Ms. JOHNSON. Can I just add, one of the things that I hope I can establish during my tenure at GSA is ever increasing respect for our capabilities and our expertise so that agencies turn to us because they know that we can provide the support and the expertise that they need. There is clearly a dispersed authority and we would like to be sure that we are playing as strong and as competent a role and sending the message that they don't need to do it themselves. The agencies really, although they could, I think they need to focus on their mission and let us take up some of that work. I don't want that mandated, but I would like it to be a result of our competence and visibility and our expertise.

Mr. DENHAM. If it is not mandated, how do you make sure that this type of lease doesn't happen again in the future?

Ms. JOHNSON. Well, I obviously can't make sure, but I have to say in the long run we went down that mandated road for a long time. I think GSA is better if we have to fight to show that we are good. And I believe that we should be out there demonstrating our competence and taking pride in our accomplishments. And I need to be out, we all need to be out sharing with the rest of the government what we can do for them.

Mr. DENHAM. Obviously transparency is a very important issue, but accountability is just as important. I think this committee would be looking in the future to go to one person. If there is this type of lease outs there, and we are wasting billions of dollars of taxpayers' money, I want to go to one person to say how did this happen. And if you do not have the authority, and maybe GSA is not the property agency, but I would like to see one agency that is held accountable to all of these leases. Not creating another level of bureaucracy, just the accountability. Maybe it is final signoff, maybe its helping to harness our buying power. But if have you an

agency that is able to go out and secure 900,000 square feet of prime office space here in DC on not a 1-year lease or 6-month, but on a 10-year lease without having—I would think a lease that big would warrant the President knowing or having some type of signoff on it. That is a big lease without having any justification behind it.

Ms. JOHNSON. I understand that our Office of Governmentwide Policy has some capability to be a bit of—to be sure that the processes are being followed and manage a lot of the reporting. So perhaps that could be one way to consider how you get a single picture on things. I think it is very complex to think about—I believe it is complex to think about agencies—to think about it all coming in in a mandated way into GSA. I just believe that that would put us into that monopolistic role, and I don't think you ultimately get the kind of down the road respect and performance that you need to get by having the pull and push among the agencies to understand it is the best place to go.

Mr. DENHAM. Thank you. I think we need a better understanding between us, and I look forward to working with you on that as we develop the criteria for this commission.

Ms. JOHNSON. I would be delighted, thank you.

Mr. DENHAM. Mr. Hanna, do you have any questions this morning?

Mr. HANNA. What do you think the fundamental flaw is behind a decision process like that? How does it happen that we could rent 900,000 square feet for 10 years? What anecdotal ideas, information do you have?

Ms. JOHNSON. I believe that there is a—that expertise is spread rather broadly and not concentrated as it needs to be. This goes to the whole acquisition workforce. We have a lot of contracting people all over the government, and it needs to be a much tighter community and better woven together. I think our expertise is dispersed, that we have expertise in GSA and it is one of the few concentrations of it and the kind of level that we have is I think is a real asset for the government. And I think that is something that if I were in management in another agency I would say why am I doing this? Why don't I turn to them? And I want to be sure that they know that they can.

Mr. HANNA. Do you have any idea of how widespread something like this might be? 900,000 square feet is a glaring example but it isn't necessarily a theme. Have you seen it other places in your tenure?

Ms. JOHNSON. I believe our governmentwide policy people could probably give me a little bit of perspective on that, and I would be happy to share it with you for the record.

Mr. HANNA. I would appreciate that. Thank you.

Ms. JOHNSON. Certainly.

Mr. HANNA. I yield back.

Mr. DENHAM. Thank you. Ms. Norton. This will be our final round of questions.

Ms. NORTON. The chairman has asked a very important question essentially when he brought up the SEC bill debacle. He was asking whether or not the Federal Government mandate that the GSA manage all lease space, whether that mandate, which is a matter

of Federal law—I am asking staff to find me the words, particularly in light of your answer, Ms. Johnson. If you have to compete for what the statute says, I would like to know how many agencies like SEC have their own authority to lease space?

Ms. JOHNSON. Not all that many. I understand it is a couple of the financial agencies and it is by law. I can get you the list.

Ms. NORTON. Yeah, I will tell you why it is by law, probably because somebody put it in appropriations, probably some Senator that they should go out and do. They probably were frankly working for some developer, and that is not in the taxpayers' interest.

Let me say to you, Mr. Werfel, you would have thought that the OMB would have been on top of this one and if you want to intervene into business of agencies which are in the leasing business. I would want to know how in the world SEC over a weekend could have on a sole source basis leased almost 1 million I think—900,000 square feet in the most expensive property in the District of Columbia? It is a property, by the way, that many of us see as the kind of property that would be useful for the increasing need of the Federal Government for secured properties. This is a brand new rehabilitated space where the developer rehabilitated it specifically because the developer saw that the Federal Government increasingly wants absolutely secure space for some agencies.

Now the last time I looked, Mr. Werfel, Arcadia was much interested in SEC, but because they have independent authority they went out and leased almost 1 million square feet only because they have no expertise. And they did it on a sole source basis, which is in violation of Federal law. I don't know why if OMB wants to do something it isn't putting its considerable expertise, whatever it is, and I certainly would think it would fall into this category to see to it that agencies don't in fact engage in this manner.

As I understand it, they have gone around the city and found 600,000—there are agencies that they believe will be able to use 600,000 feet. They don't know anything about this, and I want to know if Ms. Johnson is helping. And they still have on their hands at least 200,000 square feet.

So I need to ask both of you what you know about the SEC lease, because the taxpayers of the United States of America are paying for this lease every moment that you do not find some real use for it or find somebody else to use it. What do you know about what is happening with this? I guess since you are out of it, Ms. Johnson, and would like to compete for it, I guess the answer goes to Mr. Werfel.

Mr. WERFEL. Well, I stated in response to your earlier question, and before I get to the full answer I just want to restate because I think it is important to specify that OMB does not get involved in particular procurement activity, it is very important that we stay independent from that and allow that process to move forward.

Congresswoman, I share your frustration and one of the reasons why the President is proposing a major change to how we deal with real estate is because you will be able to find throughout government instances of inefficient and poor lease decisions that are made.

Ms. NORTON. Mr. Werfel, would you support and, Ms. Johnson, would you support the notion that in light of the consolidation going on and the President's mandate that one agency should be responsible for all leasing in the Federal Government?

Mr. WERFEL. I think I would consider that as an option to evaluate against other options to address the problem.

Ms. NORTON. What would be another option? The public building statute—GSA was set up in 1949, in 1959 Congress came to the conclusion that special expertise was necessary to manage the properties of the United States of America. That mandate included all civilian properties. As you indicate, the only exceptions have been because somebody slipped something into an appropriation. Now you are evaluating and realigning how you deal with real estate. In light of that mandate of the President of the United States, should we not go back to the mandate of the public building statute in the first place that says unmistakably that one agency shall manage leasing and development of Federal properties? Would you at least—can we at least get a bottom line agreement on that from you in light of the President's mandate for consolidation and realignment?

Mr. WERFEL. Again, I think that there are important policy implications to consider before we would—

Ms. NORTON. Name some. I am open.

Mr. WERFEL. I will, I will. If you will indulge me, let me just draw an analogy that there has been in debate, for example, in another part of government around debt collection, whether Treasury should collect all the debt on behalf of all the Federal agencies and the agencies shouldn't collect their own debt. We don't have that model. We have one in which agencies can collect their own debt. And in the nineties and the 2000s some agencies got to be better than Treasury at collecting debt. And Treasury raised its game as a result and now is better for it and may be now positioned to consolidate all the debt collection activity.

Ms. NORTON. No, no. Do you know anything about real estate, Mr. Werfel?

Mr. WERFEL. I believe I do.

Mr. DENHAM. We are out of time here.

Ms. NORTON. Just let me indicate this, perhaps collecting money is something that agencies have proved they are adept at. I have cited to you the SEC case which is emblematic, it seems to me, of what happens when you give an agency that does not have specific expertise a very weighty taxpayer function.

Ms. JOHNSON, would you at least be willing if this committee mandated it to manage all the real estate leasing and for that matter development of Federal properties?

Ms. JOHNSON. I have no problem with assuming the authority for that. I would believe that there would be cases where our designating that authority into the hands of an agency would be a responsible move. I would take the example of the Forest Service where they have minor leases that they need to be negotiating all the time and they are right there on top of it. And if we deem them to have the appropriate staff, and so on, I would like not to preclude the possibility for some of those kinds of flexibilities. I just

believe that having only one agent essentially handling all leasing is not necessarily the—

Ms. NORTON. I tell you what, Ms. Johnson, you are contradicting the statute itself.

Mr. Chairman, I believe this is an opportunity, the President says he wants to consolidate and he wants to realign. We can't just say to the President, OK, we will do what you want to do. We have got to put into this bucket the committee's own experience. The committee's own experience has been, Ms. Johnson, that when an agency whose mandate is something unrelated to property management the taxpayers are at risk. They are given authority to do something they don't know how to do, that the taxpayers are at risk. And again, I am not going to support legislation that simply leaves OMB and GSA exactly where they were and expect a different result.

I just want to lay that on the record. I have been thrilled to see this proposal come from the President. I can only hope that his agents are prepared to carry out the full intent of that proposal. If you are not, I think the only way to do it in light of the SEC debacle, Mr. Chairman, is to mandate it.

Mr. DENHAM. Thank you. Out of the sake of time we would ask for written response on that. But this is certainly an area we plan to dive much deeper in, whether that is something that is included in this bill or within follow-up hearings through this committee, but the leasing authority we believe there are a number of things that can be done, whether putting a cap on it so that—you know, I think the current cap is just under \$3 million for the properties that we do or the agencies we do see come through this committee. There is no reason that we couldn't have a cap on all properties. What has happened with SEC is atrocious, and certainly the sole source contract, as Ms. Norton has brought up, but the fact it was done I believe over a weekend, it was certainly a very, very quick process. You don't ever see government move that quick, especially done on a weekend away from this committee.

So specifically what I would like to see on the SEC portion of this is where the current investigation is right now. I want to know if anybody has been fired over this.

And then lastly, what are we doing with the space now? Are we stuck in the contract? Are we going to utilize that for other areas? Are we getting rid of our leases in the process?

But I would hope that we would be able to get that information without having to do a hearing on it as well. I know a number of committee members have an extensive amount of questions as it pertains to the SEC, but it certainly relates to the overall recommendations of what this committee will have on future legislation.

Ms. Johnson, would you care to comment before I go to my final question?

Ms. JOHNSON. No, I am fine.

Mr. DENHAM. And just finally, we have appreciated your willingness to work with us on this, your testimony, but as mentioned, we are also looking at drafting legislation, both myself as well as the committee. We would like to work with you to ensure that the criteria we are combining together and working in a bipartisan fash-

ion. Just want to reemphasize again are you willing to work with us on that legislation, Mr. Werfel?

Mr. WERFEL. Absolutely, yes.

Mr. DENHAM. Thank you. We will look forward to hopefully getting that—we talked somewhat about a timeline. We would like to expedite that timeline and certainly reap the \$15 billion-plus in savings to help us out in this budget process. Thank you for your testimony today.

Ms. JOHNSON. Thank you.

Mr. WERFEL. Thank you.

Mr. DENHAM. We are going to stay strict to the 5-minute timeline as we are starting to get very late in the process. We certainly have a lot to talk about. We could talk all day on doing a better job with our properties and liquidation as well as leases. But at this time I would like to invite Mr. David Wise, Director of Physical Infrastructure Team, U.S. Government Accountability Office, who is here today, along with Mr. Brian Lepore, Director of Defense Capabilities and Management Issues at GAO, and the Honorable Anthony Principi, former Secretary, U.S. Department of Veterans Affairs and former Chairman of the 2005 Defense Base Realignment and Closure Commission.

I ask unanimous consent that our witnesses' full statements be included in the record. Without objection, so ordered.

Since your testimony has been made part of the record the subcommittee would ask you to limit your testimony to 5 minutes, your oral testimony.

Mr. Wise.

TESTIMONY OF DAVID J. WISE, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; ACCOMPANIED BY BRIAN J. LEPORE, DIRECTOR, DEFENSE CAPABILITIES AND MANAGEMENT ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; AND THE HON. ANTHONY J. PRINCIPI, FORMER SECRETARY, U.S. DEPARTMENT OF VETERANS AFFAIRS AND FORMER CHAIRMAN, 2005 DEFENSE BASE REALIGNMENT AND CLOSURE COMMISSION

Mr. WISE. Chairman Denham, Ranking Member Norton and members of the subcommittee, thank you for the opportunity to testify today on our work related to excess and underutilized Federal real property held by Federal agencies as well as our work with the BRAC process. My testimony will focus on the civilian sector while my colleague Brian Lepore's testimony will focus on the military side.

My testimony today will discuss, (1), obstacles to effectively managing Federal real property and, (2), actions the government has taken and a framework proposed in the President's 2012 budget to overcome those obstacles.

As we previously testified before the subcommittee, the Federal Government occupies more owned and leased buildings than it needs. In fiscal year 2009, 24 landholding agencies, including DOD, reported 45,190 underutilized buildings, with a total of 341 million square feet, or 1,830 more buildings than they reported the previous fiscal year. These underutilized buildings cost \$1.66 billion annually to operate and are potentially valuable.

We designated the management of Federal real property as a high-risk area in January 2003 in part because of excess and underutilized property. That year we found that the Federal Government faced a number of obstacles to effectively manage its real property. These included the lack of strategic focus, the lack of reliable real property data, legal limitations such as public conveyance, environmental requirements and stakeholder influence, such as local governments, advocacy groups and the private sector.

Since that time the government has also made significant progress. For example, the land holding agencies have established asset management plans, standardized real property data reporting and adopted various performance measures to track progress. In our 2011 high-risk report we found significant improvement in this area. Consequently, we removed the data element of real property management from the high-risk list.

In 2007, we recommended that OMB assist agencies by developing an action plan to address the key problems associated with decisions related to unneeded Federal real property, including stakeholder influences. OMB agreed with the recommendation but has yet to implement it. However, the administration's recently proposed framework, the Civilian Property Realignment Act, CPRA, is somewhat responsive to this recommendation in that it addresses both legal limitations and stakeholder influences in real property decisionmaking.

According to the proposal, the purpose of CPRA would be in part to streamline the current legal framework for disposing of unneeded civilian real property. The proposal itself, however, does not describe how the streamlining would be accomplished.

Regarding stakeholder influences, CPRA would create an independent board to recommend Federal properties for disposal or consolidation after receiving recommendations from civilian landholding agencies. Grouping all disposal and consolidation decisions into one list that Congress would vote on in its entirety could help mitigate local stakeholder influences. In addition, CPRA would also help to reduce the government's overreliance on leasing by recommending that the government consolidate operations from leased space to owned space were efficient.

Mr. Chairman, that concludes my testimony. After Mr. Lepore's testimony, we will be happy to answer the subcommittee's questions. Thank you.

Mr. LEPORE. Mr. Chairman, Ranking Member Norton, and members of the committee, I am delighted to be here today to present to you some of our observations on the Base Realignment and Closure, or BRAC, process. This may help you as you consider the Civilian Property Realignment Board proposal.

My testimony today is based on the work that we are doing monitoring implementation of the BRAC process and reporting on the BRAC process.

Now to the first of my two points, the major elements of BRAC. DOD begins the process by developing closure and realignment recommendations and submitting them to the independent BRAC Commission. The Commission can approve, modify, reject or add to the recommendations. The Commission held hearings, voted on each recommendation, and reported to the President. The President

could disapprove the Commission's report and send it back to the Commission for revision or approve all of the recommendations in whole and send them to Congress. He did the latter.

Next, Congress had 45 days to enact a joint resolution of disapproval or all of the recommendations would become binding. They are all binding. In authorizing the round, Congress required DOD to implement the recommendations within 6 years from the date of submission to the Congress. The key similarity between BRAC and the Civilian Property Realignment Board proposal is the all or nothing approach after the Commission's report to the President.

Now to my second point, DOD's key steps to develop the recommendations. DOD established the round's goals promoting jointness in transformation, reducing excess infrastructure and saving money. DOD proposed and Congress approved the criteria that was used to develop those recommendations. DOD used the cost of base realignment actions, or COBRA, model to estimate cost and savings and provide a common way to compare candidate recommendations. And finally, DOD developed a common analytical framework and organizational structure to better ensure consistent application of the criteria in developing the recommendations.

Mr. Chairman, this concludes my prepared remarks and we would be happy to answer any questions that you or the other members of the subcommittee may have.

Mr. DENHAM. Thank you. Mr. Principi.

Mr. PRINCIPI. Good morning, Chairman Denham, Ranking Member Holmes Norton, and members of the committee. I welcome your invitation to comment on the question of whether a civilian BRAC Commission can consolidate the office space and save taxpayers billions of dollars. The simple answer is yes, if structured properly.

The most important underlying question is whether the administration and the legislative branches can afford not to execute a civilian BRAC to relieve itself of costly and unneeded infrastructure in order to achieve badly needed cost savings to the Federal budget. I commend the administration for their proposal to establish a BRAC-like process for Federal civilian infrastructure, and I commend GAO for identifying over 45,000 Federal buildings that are underutilized and for their indispensable support of the 2005 BRAC Commission that I chaired.

As we have all learned, the process does not come without pain at the Federal level in deciding what to close or consolidate at the congressional level and fielding constituent concerns and at the local community level. There will be tough choices in tough times.

My comments today will be addressed from my experience as former Chair of the 2005 BRAC Commission and former Secretary of Veterans Affairs.

I think it would be helpful to briefly review why a BRAC process was even necessary. Prior to 1988, the Secretary of Defense for the most part implemented his own base closure program with minimal consultation with the military departments or the Congress. In 1988, the DOD budget declined for 3 straight years and was predicted to decline further. To ensure that scarce DOD resources would be devoted to more pressing operational missions and investments needed rather than maintain its unneeded facilities, Sec-

retary of Defense Frank Carlucci chartered the Defense Commission on BRAC that Congress enacted into law.

In 1988, that provided the statutory basis for this one-time approach. The Secretary of Defense appointed the Commission, the Commission reported to him, most hearings and votes were closed, and there was little public information about how the Commission arrived at its recommendations.

There were many critics of the 1988 BRAC who decried the lack of transparency and independence of the Commission and felt the closure list unfairly targeted facilities located in congressional districts of Members out of favor with the administration.

It was not until 1990 that Congress passed the Defense Base Closure and Realignment Act, when Secretary of Defense Cheney unilaterally proposed closing 35 bases and realigning 20 others. That act brought transparency to the process and independence to the Commission. Consequently, there were BRAC Commissions in 1991, 1993, 1995, and 2005 that have withstood the test of time, effectiveness, and cost savings.

BRAC is a major undertaking, to be sure, but if done right it can be as open, deliberative, inclusive and nonpartisan a process as I have seen in my professional career. I strived to make it so in 2005. I can assure you that it was not an easy process.

On May 13, 2005, the BRAC Commission received a total of 190 recommendations from DOD that would in effect close or realign 837 military activities nationwide. Not only would the recommendations double in number from the previous BRAC round, but they were greater than all previous BRACs combined. We had 4 months to complete our mission. Over the course of those 4 months, our commissioners and staff made 182 visits to 173 military installations. We conducted 20 regional hearings and another 20 to legislative and deliberative hearings as well as hundreds of meetings with community representatives and elected officials, and then prepared a 338-page report of our findings and recommendations to reach the President and Congress. In my view, the lessons learned from this can be applied to other Federal agencies with unneeded infrastructure.

Turning to the current administration's proposal to establish a BRAC-like process, I strongly endorse the proposed Civilian Property Realignment Act and would suggest several changes for your consideration. In reviewing the administration's proposed legislation, I find the purpose clear. In particular, I find myself in agreement with the purpose to enable Federal agencies to retain and reinvest savings and sale proceeds. In my view, this will provide an incentive to these agencies to identify costly or unneeded facilities.

Secondly, the act would create a seven-person Civilian Property Realignment Board to assess the recommendations submitted by the Federal agencies. In addition to the need to clearly spell out the qualifications for appointment to the board, I would strongly recommend that to ensure the board's independence the President appoint five members, including its chairman, while the majority and minority leaders of both Houses of Congress appoint a member. This would raise a total board to nine people. I also suggest that a commission be established in lieu of a board and that all

commissioners be confirmed by the Senate to ensure independence and that they are nonpartisan.

Third, the act proposes that all proceedings, information and deliberations of the board shall be open upon request to the chairman and ranking member of the several Senate and House subcommittees. Again, in the interest of transparency, I would propose for your consideration that all proceedings, all information, as well as board deliberations not classified be made concurrently public, as was done by the BRAC Commission. The 2005 BRAC Commission also maintained an Internet Web site for this purpose.

Fourth, I give pause to the proposal that the board report its findings, conclusions, and recommendations to the Director of OMB. The proposed act also proposes authority for the Director of OMB to manage the process, including the authority to approve or disapprove the Commission's recommendations. Accountability and authority, in my view, should rest with the President. The Commission should have the qualifications to undertake their work, and they should be supported by an eminently qualified professional staff.

Fifth, I notice the absence of any proposed criteria that would govern the deliberations of the board. Such criteria are critical. They should be promulgated in the Federal Register for comment and included in the act enacted by Congress. The board would be bound by these criteria in making their recommendations to the President and Congress.

Sixth, one of the real lessons learned from the 2005 BRAC was a need for an effective accounting tool to estimate the true cost savings and true cost for each recommended closure and realignment. The Department of Defense, as you know, utilized the COBRA model to project costs and savings and net present value. In the case of the 2005 BRAC, transformation, and not cost savings, was the key driver in the Secretary's recommendations to the Commission.

I thank you, Mr. Chairman, Ranking Member Holmes Norton, for the opportunity to testify today.

Mr. DENHAM. Thank you, Mr. Principi.

Following the last round of questions for the previous committee, this subcommittee is very interested in making a better and more efficient use of Federal leases. As such, we would like to know more about how DOD dealt with leases in the last round of BRAC and what do you think should be done under this Commission?

Mr. PRINCIPI. Well, the Secretary of Defense had proposed in the 2005 BRAC that a significant amount of lease space be vacated and those offices consolidated on military bases, and I think that is a viable option for Federal civilian buildings as well.

To just give you one example, Mr. Chairman, since 1967, I am going now to my days as Secretary of Veterans Affairs. Since 1967 the VA had a VA benefits regional office in downtown Atlanta. It was privately owned space leased by the General Services Administration. We, the VA, decided in 1999 to move that benefits office to the grounds of the VA Medical Center to collocate that benefits office on the grounds, unused vacant space adjacent to the VA Medical Center, providing one-stop shopping for the veterans who needed health care and needed benefits. We were able to save 50 per-

cent of the cost that we were paying in leased space in downtown Atlanta, with additional parking for veterans and staff, furnishings, IT equipment, the entire framework needed to maintain a regional office.

So I think it can be done. It has been done at the VA, and I think would work in civilian office space.

Mr. DENHAM. Thank you. Mr. Wise, ending a lease, we were just talking about the SEC, ending a lease has the same outcome as disposing of a government-owned property. Do the same obstacles apply?

Mr. WISE. Mr. Chairman, in a word, no. We have found over the years that the Federal Government often leases buildings for longer term needs when ownership would have really been more cost effective in the long run. One way that it is possible to rebalance the ownership-lease mix would be to allow the less efficient leases expire and consolidate Federal workers onto federally owned facilities. I think some of that came out in the earlier testimony on these cases.

None of the screening, disposal, or environmental requirements would apply. So it makes it much, much easier. As long as the different Federal elements can be combined within this space and local issues are taken into consideration, then the impacts would also be minimized and the Federal Government should be able to move forward with a more cost effective arrangement.

Mr. DENHAM. What would you say have been the biggest hurdles in selling and disposing of properties themselves?

Mr. WISE. There are a number of hurdles that go into selling a property. Those include the need for considering public conveyances, the environmental impact statements which can take a very long time, the requirements to offer to advocacy groups like the homeless and historical preservation and then sometimes private sector considerations come into play. Thus, there are quite a few hurdles that go into being able to move towards sales of properties under the current arrangements.

Mr. DENHAM. And does GSA's database capture all the potentially unneeded properties in GSA's portfolio?

Mr. WISE. We don't think so, but quite frankly, we really haven't formally evaluated the extent to which property utilization is correctly covered in GSA's database. But if you recall in our last hearing (where the temperature was a little low), the Old Post Office was one of the buildings not covered in the utilization field. This can occur with mixed use buildings. We have done some previous work with the Postal Service and found that there were quite a few facilities not fully visible regarding the utilization field. However, we do have a request that we are going to be staffing in the next couple of months to take a look at the overall utilization and leasing arrangements. We will cover that area much more thoroughly in the next year.

Mr. DENHAM. In your testimony you said the BRAC included independent oversight by GAO. Does the civilian board as proposed in the President's fiscal year budget include opportunities for independent oversight and should that be at GAO?

Mr. WISE. I think it is up to the Congress to decide who it should be, but I think in general an independent commission lends credi-

bility to the entire process. The current proposal, at least the version that we saw in the President's 2012 budget proposal, doesn't say anything about independent oversight. Mr. Werfel mentioned there is going to be a much longer, more detailed proposal coming at the end of the month, so perhaps it will be covered there. But from what we saw in the short proposal that was in the President's budget, such oversight was not discussed.

Mr. DENHAM. And GAO's position? Obviously played independent oversight. Not your recommendation, but do you think GAO could perform the same type of oversight, if asked by Congress, that it did under BRAC?

Mr. WISE. I think Brian can explain what GAO did in its role in BRAC oversight.

Mr. LEPORE. Mr. Chairman, the 1990 BRAC statute and the 2001 amendment to that actually specifies several roles for GAO. The first one is that the Comptroller General is required to provide assistance to the Commission at their request. The idea is we develop an agreement and actually detail staff. We did that in BRAC 2005. We sent six of our senior analysts and analysts to provide assistance to the Commission and the Commission staff as they considered the recommendation.

The statute also required that we review the DOD force structure plan and infrastructure inventory. You may know that the statute required DOD to develop a projection, if you will, of what its force structure would look like over the next 20 years, and that was in fact part of the criteria that was used in developing the recommendations. We were required to comment on that, and we did that.

Thirdly, we were mandated to review the process that DOD used in developing its recommendations, and we did that and reported on July 1, 2005, that DOD had used a logical, reasoned, and well-documented process.

Subsequent to that, there is one more. The House Committee Report accompanying the Armed Services Committee's 2008 Defense Authorization Act mandated that we monitor implementation of the recommendations and report annually on implementation along with a lessons learned report. We have just begun that lessons learned report effort right now and we will be reporting that later this year.

So GAO actually has had several roles in assisting with the BRAC process.

Mr. DENHAM. Thank you.

Ms. Norton.

Ms. NORTON. Thank you very much, Mr. Chairman. I want to quote from Mr. Principi. Mr. Principi, I just want to note for the record your enormous expertise in this area, not only you have been Chairman of BRAC, you have been a Cabinet official who had the authority to lease and develop—by the way, that authority was given by the Congress of the United States, your Veterans Affairs post, and of course you have been on the Senate staff. So you have really had a bundle of experience that could be useful to us, and therefore I took particular notice—perhaps you heard my own concern about OMB's expertise. I took particular notice, and I am going to quote from your testimony, I give pause, you said, on page

4, to the proposal that the board report its findings, conclusions, and recommendations to the Director of OMB. The proposed act also proposes authority for the Director of OMB to manage the process, including the authority to approve or disapprove the Commission's recommendations.

You give pause clearly because you have issues with that kind of direct authority by OMB, which is essentially final, because OMB, I guess, makes a recommendations to the President. And you seem to want the President himself to have final authority. I wish you would explain your views on how this new BRAC process should work with respect to OMB.

Mr. PRINCIPI. Yes, Madam Ranking Member, again, the 2005 BRAC round that I chaired made our recommendations directly to the President, where I believe certainly the final authority in the Executive branch should lie. That is not to say that the President cannot look to his Cabinet officials to weigh in on the recommendations before he makes a final decision. And ultimately it should rest up here with the Congress to make that final decision.

I would also echo that I think GAO played, again, an indispensable role in supporting BRAC and I think they would play an indispensable role in supporting this process. They are independent. They have the expertise. And if they don't have the expertise, they would gain that expertise by bringing on the right people.

And, very importantly, Congresswoman Holmes Norton, I think you have to take great pains to ensure that you have the right makeup on the Commission. I was blessed as Chairman to have eight wonderful commissioners around me who had the requisite expertise on military matters that could really make decisions, supported by a strong executive director who brought on expertise in military infrastructure matters. I think that is the most important criteria to ensure that the right decisions are made with oversight by GAO and go to the President.

With all due respect to OMB, I just don't think they are the right agency to have the final approval authority.

Ms. NORTON. And it should be with the President himself?

Mr. PRINCIPI. Absolutely.

Ms. NORTON. Then he could call upon the expertise or GSA or anybody else that he thought might be able to help him.

Mr. PRINCIPI. I absolutely believe that.

Ms. NORTON. Essentially, this gives OMB two bites at the apple. It is OMB that you rely on; obviously, the President isn't sitting down there by himself. So it is exclusively relying on OMB. It seems to be a pretty circular process.

Mr. Lepore testified about detailees—I believe it was you, Mr. Lepore—from GAO to BRAC. Would you recommend—of course, at GAO you do have people with infrastructure experience, with budgetary experience, with real estate experience. Would you recommend such detailees to be used in this process to OMB, to the President, or elsewhere?

Mr. LEPORE. Let me try to answer your question this way. I think the key contribution that the GAO staff made to the Commission was the people we assigned had the right background to do analytical work. We are very good at developing analytical frameworks for analyzing processes and what we call methodologies. We

also took great care as we selected the individuals—and here is why. We actually knew what the recommendations from DOD to the Commission were at the time we were making the choices and we were able to select from our staff those individuals who had substantive expertise as well as a strong analytical framework.

Let me give you a specific example with respect to some of the medical recommendations. We actually assigned someone from our health care team as one of the staff members that we sent to Mr. Principi and his colleagues on the Commission. The point being here that we carefully chose those staff who had a good subject matter knowledge to address the specifics of the recommendations as well as were strong analytically, which really all GAO staff are.

Ms. NORTON. Couldn't be more important here.

Yes, Mr. Principi.

Mr. PRINCIPI. I would like to add one point, and that is the BRAC Commission had the authority—we had the authority to add bases to the list that were not recommended by the Secretary. I think that is very, very important that the civilian BRAC process commission have that same authority. It required a super majority vote to add a base to the list that the Secretary of Defense did not recommend. But we were able to identify bases where there was encroachment around a flight line that impacted the training of our young naval aviators. We added that base to the list. And I think it had an impact on changes that were made.

Ms. NORTON. Mr. Chairman, my time is up, but Mr. Principi has said that the Secretary, DOD Secretary, who obviously managed larger agencies, but let's say four agencies—here there are 23 agencies that would be involved. So if the Secretary—if the board could recommend bases beyond the Secretary, then it would seem that this board ought to be able to recommend properties beyond those that the 23 agencies had OKed.

Thank you.

Mr. DENHAM. Thank you. Mr. Principi, diving straight back into that same type of question, the Secretary gave the list—the Secretary drove a lot of the issues. Obviously, the Secretary had a vested interest in making sure that the BRAC Commission was successful, where you may have had independent bases or base commanders that had a difference of opinion. Here in this case we don't have a Secretary that would oversee all of the agencies, and you can see that it has been difficult for us to obtain lists and information.

Can you describe the process that you went through in not only gaining the lists and the information but actually making sure that it was accurate?

Mr. PRINCIPI. Well, it was really spelled out in statute. We had clear criteria by which to measure whether the recommendations were correct, and we did thorough analysis. We visited all of the military bases under consideration for closures or realignment. We had the support of GAO oversight, we had commissioners who had the requisite expertise. And I think those combination of things, I believe, allowed us to make the appropriate decisions. They may not have been right in every case, but I think as long as the Congress spells out the criteria by which agencies have to submit recommendations to the Commission, clear criteria by which the Com-

mission assesses those recommendations, and makes a final decision and reports it to the President, gives the President a reasonable but limited period of time to either disagree, send it back to the Commission, send it on to Congress, I think, for the most part you will come out with the right decisions. So that is the process I would suggest you follow.

Mr. DENHAM. Thank you. How about as far as ensuring that the information, the lists, are accurate coming from each different agency? Did you have any pushback from any of the various bases that you dealt with on not wanting to provide all information necessary to accomplish the Commission's criteria?

Mr. PRINCIPI. Well, we did. And in some cases, information that was submitted, data that was submitted by military bases, the base commander to the Pentagon came to the Commission far different than the base commander reported. So we had instances where information that went to the Pentagon didn't come out as it should have. We were receiving different data from the Pentagon. But we were able to assess that by our visits to military bases, having those discussions, and trying to identify as much as we could about the base.

Again, we had the analytical work of GAO, we had a very, very professional staff who had been on previous BRAC rounds, and I might also add that we had a very limited period of time, but it held our feet to the fire. This thing did not drag out like many commissions do month after month, year after year. We have had a finite period of time. Either we had our recommendations on the President's desk by a certain date or all of our work was terminated. It was all for naught.

So I would suggest that you put very different timelines on getting this information to the President and getting it to the Congress for an up-or-down vote on the recommendations or it will go on for year after year and you will have accomplished very little, Mr. Chairman.

Mr. DENHAM. Was there any repercussions to inaccurate information if a base was giving information to the Pentagon different from what they were giving you?

Mr. PRINCIPI. Well, certainly did our best to make sure that that information was conveyed to the higher levels at the Department of Defense, but we also tried to protect the base commanders who provided us with that information. It was a very delicate balance, Mr. Chairman. But we did our best to make sure that the Defense Department knew that they were passing on inadequate and different information to us than we had learned in the field.

Mr. DENHAM. Thank you. Finally, the same question I had for the last panel, what type of expertise do you feel is important to be on the Commission?

Mr. PRINCIPI. Real estate people who have requisite knowledge in real estate-related matters, financing-related backgrounds, Federal infrastructure, I think former senior executives with the Federal Government in various different capacities, but certainly individuals who have a strong background in real estate development, financing, and leasing, who could bring that expertise to the Commission.

Mr. DENHAM. And are you still working with the BRAC Commission now?

Mr. PRINCIPI. Other than testifying periodically.

Mr. DENHAM. You know what my next question is, don't you? Would you be initiated in serving on this new commission?

Mr. PRINCIPI. My problem is—

Mr. DENHAM. You are on the record.

Mr. PRINCIPI. The problem is I don't know how to say no to public service, so I guess I would. I am sure there are other more eminently qualified individuals than myself, Mr. Chairman, but thank you very much.

Mr. DENHAM. Thank you. Ms. Norton.

Ms. NORTON. I wouldn't be so sure about that, Mr. Principi. We really need people who have been around the mulberry bush a few times.

Mr. DENHAM. The correct response would have been I am going to check with my spouse first.

Ms. NORTON. I would like to combine what I am gleaning from the testimony of Mr. Wise and Mr. Lepore with what I know about the Veterans Affairs Department. I was interested that your testimony indicated that the new board could help with one of this committee's long-term concerns, the overreliance on leasing, by recommending the consolidation of operations. Well, the President has set about the consolidation process already, and I certainly can see some possibilities there. But I know that Mr. Principi in fact had an authority that if GSA has it, it rarely uses it—its enhanced lease authority.

The Veterans Affairs Department is one of those agencies that for very good reasons has its own independent authority. When you consider the number of buildings and operations that are under your jurisdiction—and that is an example where Congress just slipped something in and said this is what we want for the Veterans Administration. How you have done leasing or how you have done property management has saved the taxpayers billions upon billions of dollars.

Let me give you an example and ask our other two panel members if they believe that somehow getting better use of such authority would help to get more of our agencies into owned space.

The Veterans Administration has, among other things, enhanced lease authority. So that means that the Veterans Administration can do a ground lease where that means that somebody in the private sector can then put that up. Somehow or another, you don't run into the scoring problems that the GSA runs into. So I am sure you must do a lot less leasing than the GSA does now. In fact, it has tipped. It now does more leasing than it has owned space.

And I want to know from Mr. Wise and Mr. Lepore, while we are at it, whether we shouldn't see to it that GSA—and, again, it may have, it certainly seldom uses; I don't know how to make sure it does—but that it uses enhanced lease authority as well so that the Federal Government is not leasing for 10-, 15-, 20-year terms.

Mr. LEPORE. Congresswoman Norton, as you know, the Department of Defense does have enhanced use leasing authority. What DOD will typically do in these circumstances—and there aren't a lot of the enhanced use leases. That typically refers to a very large,

long-term lease, very complicated negotiated deal, if you will, between a developer and the installation. But typically what they will do on an installation is they may identify land that is not excess to their needs, because the statute requires it cannot be excess to their needs if they are going to do an enhanced lease, and then will negotiate with a developer to develop some facility—an office building, hypothetically. The developer gets a 50-year ground lease. The developer builds the building, subleases the office space, if that is what it is, to a tenant, and the installation gets back some agreed-to consideration. It could be cash or it can be in-kind consideration. And that is all negotiated upfront. But it is an opportunity for the installation to effectively get a kind of return on investment, if you will, on land that is not excess to their needs permanently but is not used for the period of time of that lease.

Ms. NORTON. So this board is going to have to decide whether or not the Federal Government could reap some benefit or revenue from this land or whether it should simply sell it off. One of the things they are likely to do is to say, Well, look at what it would take for GSA to use the property. If it doesn't have enhanced lease authority, what it would take looks like it might be a steep mile to climb and you end up selling off properties that you could be earning revenue from forever.

Mr. Principi, what I am asking both of you, as long as we are looking at the collocation, this consolidation, whether or not we should not also be looking at what it takes to make sure that the government is making the highest and best use of its land before it decides it has to sell it off so somebody else can make the highest and best use, simply because our procedures don't afford GSA that opportunity.

Mr. PRINCIPI. I certainly agree with you, Congresswoman Norton. That is what I tried to do as Secretary, was to leverage the equity that we had in our land. Large VA medical center campuses, lots of unused land. Why pay very high lease rates in downtown, separated from the VA Medical Center, so veterans had to go to both places. And whether it be a local development authority in the city or county or private developer, come on, build us what we need. We will get reduced lease rates because it is our land and then at the end of the lease term the building would convey back to the VA. In many cases, it worked very, very well for the VA. I assume it could work for other agencies of government, but certainly in our case it did. I believe in DOD it can as well.

Ms. NORTON. Of course, here we are dealing with essentially property that is usually managed by GSA. I just cite to you the example of the headquarters building of the Department of Transportation, where we build an entirely new, huge building for the Department of Transportation. I think they are on a 15-year lease because GSA has but apparently for some reason doesn't use enhanced lease authority, where you could, obviously, since you are never going to move your headquarters if you just built a new one, could have used it. That is the kind of waste that I see. As long as you are dealing with how you manage your property, seems to me you have got to use this opportunity to deal with the whole thing.

I want to ask all of you about the differences between DOD BRAC and this BRAC. DOD BRAC happens every few years. You know what those properties are. You apparently have got a critical mass and then you do a BRAC. Now, is that going to be sufficient for a civilian BRAC? Would there need to be some ongoing process, given the number of properties that may come and go when you have such a huge landowner as the United States Government itself?

Mr. DENHAM. For the sake of time I would ask for a brief response.

Mr. LEPORE. Certainly, I will try to be brief. As you know, there were four rounds of BRAC prior to the 2005 round. I think one of the things we saw after the first round in 1988, there were three that occurred in alternating years—1991, 1993, and 1995. The idea was there was a recognition that there were a significant number of installations that DOD felt were excess to its needs, its determination. But there was a recommendation that to try to swallow them all at once was probably not going to be doable or feasible. And so the 1990 statute that authorized those next three rounds put them in alternating years, and it effectively created a cycle, if you will, that allowed for the selection of I will call it a reasonable number of installations that could be considered for closure or realignment without putting so much before the Commission at any one time or any one Commission that it couldn't get it all done.

So it created a manageable process, if you will, to allow DOD to convey, dispose of and ultimately convey a large number of installations it deemed excess to its needs. But was that rolling cycle that helped to make that possible.

Ms. NORTON. I just think that is a very important point to make. You can put too much on the Commission.

I have one last question. I think it is Mr. Principi who said in his testimony there are real lessons to be learned from the 2005 BRAC on the need for an effective tool to estimate the true cost savings and true costs of each recommended closure and realignment. And I tell you there are folks here who believe that there are gazillions of dollars just waiting out there to go to market. I have got to ask you, what lessons are you talking about? Do we know what the cost savings were, what the cost was, what revenue was brought in from the last BRAC? Do any of you know that?

Mr. PRINCIPI. I think it is critically important. You have to have a good cost savings model.

Ms. NORTON. When you say that real lessons learned, did you learn that some of these properties did not have true savings or provided true costs for the government that you were not aware of?

Mr. PRINCIPI. Yes, it did. Inflationary costs. There is a 6-year period from the date the decision is made to close or realign a base to the time it has to be implemented—in our case, 2011. You have a lot of inflation that goes on. That wasn't accurately reflected in the analysis. As well as personnel costs. A significant percentage of the proposed savings came from reductions in military personnel. Along with GAO, we found that that was not the case. Military personnel were being transferred to other bases; they weren't being reduced from end strength. And that dropped the cost savings very dramatically, Congresswoman Norton. So I think those kind of re-

finements have to be made to the model to be effective on the civilian side as well.

Ms. NORTON. Mr. Chairman, that was my last question, but I certainly hope we recommend the lessons from BRAC—we have had three or four BRACs; we have had at least three since I have been in Congress—that before any statute is drawn, we have some experience from BRAC as to whether or not there is any savings or whether or not we have estimated costs so that we don't go blindly into this where there is real experience on the table for us to learn from.

Thank you very much, Mr. Chairman.

Mr. PRINCIPI. I am sorry to interrupt. Following up on Mr. Lepore's statement about the process and having a civil BRAC every 2 years, I urge you to consider maintaining a core group of civil BRAC experts so that when a new BRAC round begins, you don't have to go out and find that staff. You have a good core staff that could then be augmented so that that civil BRAC can get going right away without having to ramp up from zero base.

Mr. DENHAM. Almost sounded like you were volunteering in your final statement.

I would like to thank this panel as well as the previous panel. We will be not only submitting a list of questions but looking for your assistance in defining a clear criteria. This will be different from the DOD BRAC. And we will have to have not only a strong, clear criteria up front, but this committee will definitely be looking for a guarantee that we have quick and efficient disposal of properties. So we would ask for your help as we are finalizing our legislation over the next few weeks, and look forward to your accessibility.

If there are no further questions, I would ask unanimous consent that the record of today's hearing remain open until such time as our witnesses have provided answers to any questions that may be submitted to them in writing and unanimous consent that the record remain open for 15 days for any additional comments and information submitted by Members or witnesses to be included in the record of today's hearing.

Without objection, so ordered.

I would like to thank our witnesses again for their testimony today.

If no other Members have anything to add, the subcommittee stands adjourned.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned.]



STATEMENT OF
THE HONORABLE ELEANOR HOLMES NORTON
 SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS
 AND EMERGENCY MANAGEMENT
 TRANSPORTATION AND INFRASTRUCTURE COMMITTEE

HEARING ON
 "Can a Civilian BRAC Commission Consolidate Federal Office Space and Save Taxpayers
 Billions?"

April 6, 2011

Good morning, and welcome to our witnesses. I want to thank Chairman Denham for calling today's hearing on the Obama administration's proposal, found in Section 735 of the fiscal year 2012 budget, to create an independent board, the Civilian Property Realignment Board (Board), tasked with making recommendations for the realignment and consolidation of federal civilian real estate, much like the Department of Defense Base Closure and Realignment Commission (BRAC) commission. The proposed Board has the potential to be a valuable and rational tool for providing a source of revenue for the federal government to maintain existing buildings and to better manage its real estate. The Board would dispose of unneeded and underutilized real estate and would consolidate federal real estate functions where appropriate. Last year, the president issued a government-wide memorandum that ordered agencies to reduce their real estate footprints. That directive represents the administration's sustained priority of addressing the management of federal real estate. I applaud the administration explicitly addressing federal real estate in a comprehensive manner in its fiscal year 2012 budget.

In 2003, the Government Accountability Office (GAO) placed real property management on its list of "high risk" government activities, where it remains today. Both this committee and GAO repeatedly have registered serious concerns about the way federal real property has been managed. I am especially pleased, therefore, that the current administration has continued to build on its initial efforts to right size the federal real estate portfolio by issuing a memorandum requiring all federal agencies to reduce their real estate footprints and now by proposing legislation to create the Board.

The Board would conduct an analysis of the inventory of federal civilian property and would then hold public hearings. Much like BRAC, the Board would obtain recommendations from federal agencies on real estate that could be sold, transferred, consolidated, co-located, or reconfigured to reduce the real property inventory and operating costs. At a minimum, the Board would submit a report on its findings twice a year to the Office of Management and Budget (OMB). Within 25 days of receiving the Board's report, if the OMB Director approves of the Board's recommendations, the Director would submit the recommendations to Congress. Conversely, as with BRAC, if OMB disapproves of the Board's recommendations, in whole or in part, the Director would then transmit to the Board and to Congress the reasons for OMB's disapproval. The Board would then be required to transmit to OMB a revised list of recommendations. If OMB approved the revised recommendations, it would then transmit them

to Congress. Congress would have 45 calendar days to pass a joint resolution disapproving the recommendations. If Congress failed to pass a joint resolution, the Board's recommendations would gain legal force and agencies would commence with the recommended activities. Proceeds from the sale of properties would be split between deficit reduction and covering the costs of disposing, consolidating, co-locating or reconfigure properties.

The administration's proposal would offer a new and more powerful tool to identify underutilized federal properties, which could help move agencies out of leased space and would allow the sale of real estate where appropriate. Just as importantly, the Board would be highly instrumental in reconfiguring, co-locating, and realigning the federal real estate portfolio. It is impossible to know without a rigorous inventory and analysis whether the federal government is really sitting on billions of dollars of underutilized surplus properties for which there is a market. Now is the time to find out and to provide the country with at least one alternative to the mindless slash and burn approach to the budget in use in the House at the moment. In contrast, the Board would assess the real estate needs of agencies and would thoughtfully and rationally right size the real estate portfolios of agencies, which often lack the expertise to make strategic real estate decisions. Astonishingly, although the General Services Administration (GSA) is charged with managing and developing federal government properties and leases, there are least 23 agencies currently controlling real estate. Most of these agencies have missions unrelated to real property. However, according to GAO, the GSA alone holds 282 excess or otherwise underutilized buildings that cost \$93 million annually to operate. One of the most prominent of these properties, the Old Post Office building, a priceless, historic treasure, had to be pried loose by a bill I introduced and got enacted with strong bipartisan House and Senate support.

At the same time, this subcommittee must always take the broad view of real estate. Although I believe the Board can serve an important role in disposing of unneeded real estate, the administration's proposal does not require the sale of real estate assets in a soft market or the sale of properties that hamstring the government's ability to house federal employees in the future. Expert and specialized skill is necessary to dispose of underutilized real estate assets while avoiding selling property the government could need in the future, leading to future long-term leasing because of the haphazard disposal of underutilized real estate. For example, the federal government was wise to maintain the St. Elizabeths property in the District of Columbia. The government could not have foreseen the need to establish the Department of Homeland Security (DHS). However, there had never been enough space to consolidate agencies in the District, and St. Elizabeth was a 176-acre, federally owned property in the nation's capital. Preserving this land on which DHS agencies are being consolidated from leased space will save the government billions of dollars.

Property that does not fit the long-term real estate needs of the federal government should be sold. However, this subcommittee will want to be just as alert to redeveloping federal property to earn revenue for the government, like the Old Post Office building, whose Request for Proposals was just issued last week, and the Hotel Monaco, developed from the Old Tariff Building, which quickly began to provide revenue to the government. The Old Post Office building is the prime example today of taking an underutilized property that was operating at a loss and converting it into revenue-producing property for federal taxpayers. Ironically, Congress had to force this change by statute over the objection of staff at OMB. For years OMB

has held on to GSA real estate because of the absence of OMB staff with real estate expertise. If OMB is to take on the responsibility envisioned in the administration's proposal, it will need to finally bring on staff with specific real estate and development expertise.

I support the concepts contained in the administration's proposal for an independent Board to meet the goal of right sizing the federal real estate portfolio and saving taxpayers billions of dollars. Now, it is up to our subcommittee to quickly pass bipartisan legislation that puts the proposal to work. I look forward to the testimony of today's witnesses to help with this task.

**STATEMENT OF
MARTHA JOHNSON
ADMINISTRATOR
U.S. GENERAL SERVICES ADMINISTRATION
BEFORE THE
COMMITTEE ON TRANSPORTATION AND
INFRASTRUCTURE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC
BUILDINGS, AND EMERGENCY MANAGEMENT
U.S. HOUSE OF REPRESENTATIVES**

***“Can a Civilian BRAC Commission Consolidate
Federal Office Space and Save Taxpayers Billions?”***

APRIL 6, 2011



Good morning, Chairman Denham, Ranking Member Norton, and members of this Subcommittee. My name is Martha Johnson, and I am the Administrator of the U.S. General Services Administration (GSA) and I am honored to join you here today.

In the President's FY2012 budget, the Administration announced an effort to accelerate the disposal and consolidation of the Federal government's civilian properties. This initiative anticipates working in partnership with Congress to increase the number of properties available for disposal and streamline the disposal process to help the Government realize financial savings. It expands upon the June 2010 Presidential Memorandum that directed Federal civilian agencies to increase efforts to dispose of unneeded Federal real estate and to maximize the utilization of the current inventory to achieve billions in savings.

I appreciate the opportunity to come here today to discuss GSA's management of its assets, GSA's role in the disposition of property government-wide, and how that fits into the broader Federal government real property portfolio. GSA's experiences working with partner Federal agencies to execute the Presidential Memorandum, and some of the unique challenges of the Federal disposition process, can help inform the process of creating a successful civilian property initiative that accomplishes what we are all hoping to achieve: meeting our responsibility to taxpayers to spend every dollar effectively and find ways to do more with less.

The Federal Real Property Portfolio –

While GSA has a large real estate portfolio to manage, the broader Federal government portfolio is far more extensive. GSA manages the Federal Real Property Profile (FRPP) which is the Government's inventory database of Federal owned and leased assets including buildings, land, and structures. The FRPP is the "single, comprehensive, and descriptive database of all real property under the custody and control of all executive branch agencies, except when otherwise required for reasons of national security," in accordance with Executive Order 13327.

In FY2009, 24 agencies reported a total of 429,000 building assets worldwide. These assets are broken down in different categories such as utilization or status. In FY2009, 55,000 assets government-wide were identified as being under and not utilized. These assets could include buildings that are under modernization and structures or buildings in the middle of a campus as well as land and other structures such as sheds, fences and flag poles. Agencies described 14,000 assets government-wide as excess, indicating the agency had no further mission need for the asset.

GSA's Asset Management –

Of the 429,000 building assets reported in the FY2009 FRPP, GSA controls around 9,000. In square footage, this comprises about 8.3 percent of the total government's portfolio.

As the Government's landlord, we supply office space to other Federal agencies in support of their mission. We have a robust asset management program to track the utilization of our inventory, strategically invest in our assets where needed, and aggressively dispose of unneeded assets.

Because of our efforts, we lead the market with our vacancy rates and utilization; less than 3 percent of our portfolio has been classified as an under- or non-utilized asset. Since 2002, GSA has disposed of over 200 GSA properties totaling more than 9.5 million square feet. These dispositions represent 5.3 percent of GSA's owned portfolio and eliminate almost \$484 million in anticipated repair needs.

Although we work diligently to identify unneeded assets for disposal, it is important to note that not all properties labeled as underutilized are available for sale. In fact, the majority of GSA's properties labeled as underutilized in the FRPP are not candidates for disposition. More than half of these properties are undergoing major building modernizations, being backfilled with tenants from leased space, or assigned to agencies with new requirements. When we find underutilized space in areas where there is a continuing Federal need, GSA works aggressively to renovate and reuse the asset to achieve greater utilization.

Of the 14,000 assets categorized as excess in the FRPP, GSA, as a land holding agency, identified 138 assets as excess to our own agency needs and has placed 114 of these assets into the disposal process. The other 13,862 assets are from agencies other than GSA, constituting the vast majority of excess Federal assets.

GSA's Role as the Disposal and Repositioning Agency of the Government –

In addition to managing our own inventory, GSA has authority to dispose of most properties government-wide. GSA provides strategic direction and oversees the development of programs related to the utilization and disposal of Federal excess and surplus real property government-wide.

GSA's disposal authority was provided in recognition of the expertise related to repositioning property. GSA develops tailored disposal strategies specific to an asset's characteristics, environmental issues, community interests, political concerns, market conditions and other factors impacting the repositioning of the unneeded asset. Similarly, when preparing a property for public sale, GSA develops marketing plans that optimize the public offering. We use tools and techniques designed to reach very broad audiences and we target specific niche interests.

While GSA has the expertise to successfully navigate properties through this disposal process, each individual landholding agency is responsible for making their own asset management decisions on whether that asset is excess to their needs.

In the last 10 years, GSA has disposed of over 3,300 assets, valued at \$8.5 billion. Of these 3,300 government-wide assets, 206 were GSA owned assets and were valued at \$467 million of the \$8.5 billion.

The Disposal Process –

The Property Act disposal process, and the guiding environmental and historic statutory requirements that must be followed during the disposal process, are critical to understanding some of the unique challenges of this system. For each disposition we manage, GSA has to meet certain requirements in the existing framework of authorities. These requirements include evaluating the property for Federal and public benefit, identifying and addressing any environmental issues with the property, and special consideration for historic properties.

The disposal process begins when a Federal agency determines that it no longer has a mission need for an asset and reports the property as “excess” to its needs. It should be noted here that a property reported excess in the disposal process is not the same as being reported excess in the FRPP database. Not all of these will turn into Reports of Excess and be disposed of since some may be demolished or have too costly and timely of cleanup requirements.

GSA assists agencies without disposal authority to dispose of the asset. After a 30 day period, if there is no valid need for the property within the Federal government, it is considered “surplus” and offered to other public organizations, such as the state, county, and city. These local entities can acquire the property through a negotiated sale at fair market value or through a public benefit conveyance for specific uses including homeless assistance, parks and recreational purposes, historic monuments, public health needs, educational purposes, correctional institutions, and law enforcement needs. Due to the positive impact and value to the local community, public benefit conveyances may be discounted up to 100 percent of the fair market value. Determining if a property meets the criteria for public benefit conveyance, as well as working with the local community through this phase, often adds time to the process. Local political interests also can delay this process when various stakeholders try to advocate for a particular use of the property. GSA, however, strives to conduct public benefit assessments and work with the local community while proceeding through the disposal process, trying to minimize any delays.

GSA is then authorized to conduct a public sale of the property if there is no viable public benefit interest or negotiated sale interest in the property. Through aggressive marketing and public outreach, GSA conducts the sale through an online auction, public outcry auction, or sealed bid.

In addition to these process requirements, dispositions must comply with a variety of environmental and historic preservation requirements, which may require considerable time and funding. The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, for example, imposes requirements on transfers of Federal real property to non-federal entities, including characterization and remediation when necessary of the asset's hazardous substances. The National Environmental Policy Act also requires landholding agencies to identify, and analyze any impacts associated with deeming a property as excess and disposing of the asset, and possible mitigation measures to such impacts. Properties in the disposal process must also be in compliance with Section 106 of the National Historic Preservation Act, which requires GSA to consider the effects of its proposed disposal undertakings on historic properties. Even when GSA receives special legislation to dispose of a property directly to sale, historic and environmental issues can still delay the execution of the transaction.

The Federal civilian disposition process is an iterative and deliberate process with a number of statutory requirements that seek to strike a balance between social and economic policy objectives. These requirements ensure properties are disposed of consistently and in the best interest of the American taxpayer. This process, however, can be time consuming with the associated political interests, community expectations, environmental factors, and regulatory reviews. These variables often manifest themselves into competing interests that create inefficiencies and drive increased time and costs.

Experiences under the Presidential Memorandum –

As a significant Federal asset manager and the agency with government-wide disposal authority, GSA has helped lead efforts to achieve the goals outlined in the President's June 2010 Memorandum titled "Disposing of Unneeded Federal Real Estate." This memorandum charges civilian agencies to more effectively utilize space, reduce operating costs, and dispose of unneeded real property to save \$3 billion by the end of 2012. The Administration has identified \$1.7 billion in savings of the \$3 billion targeted so far and is aggressively working for more savings.

As part of this effort, GSA has worked with agencies to maximize the utilization of existing facilities and to find properties they no longer need. We have developed an array of strategies to support new ways of working, with the goal of reducing physical space, increasing space utilization, reducing the cost of space, and increasing its flexibility. We continue to work with Federal agencies to increase the number of unneeded Federal properties in the disposal pipeline.

President's FY2012 Budget: Civilian Property Realignment Initiative –

The President's proposal for a civilian property realignment initiative outlines a number of key goals that aim to address these issues. This initiative includes increasing efficiencies and streamlining the current legal framework to accelerate the disposal and realignment of civilian real property in the Federal government's inventory. The proposal will also reduce operating and maintenance costs associated with the disposed properties to save taxpayers money, as well as eliminate the local political constraints that sometimes prevent properties from being sold. Furthermore, this initiative aims to incentivize agencies to remove these properties from their inventory by enabling upfront funding to assist agencies in preparing an asset for disposition and providing agencies with the ability to retain proceeds.

The proposed Civilian Property Realignment Act (CPRA), highlighted in Section 735 of the Government-Wide General Provisions of the FY2012 President's Budget Request, expands upon the June 2010 Presidential Memorandum that directed Federal civilian agencies to increase efforts and timeliness in removing excess and surplus properties for a savings of \$3 billion by the end of 2012. The President's initiative through CPRA is to reduce the administrative burden and eliminate funding and political obstacles associated with identifying and disposing of unneeded assets.

The CPRA authority looks to provide greater incentive for agencies to identify and dispose of unneeded property, increase the number of properties slated for disposal, increase efficiencies in the disposal process, and enable GSA to work with agencies to develop disposition strategies. This initiative intends to help implement large-scale consolidations across common assets and among agencies, which will reduce the Government's footprint, decrease operating and maintenance costs, boost sales proceeds and improve energy efficiency.

It is important to note that CPRA is envisioned as a partnership with Congress. The proposal in the President's Budget outlines some key goals of this civilian property realignment act.

Conclusion –

The Administration is interested in pursuing legislative authorities that will increase the number of assets available for disposal and expedite the disposition process. The President's proposed Civilian Property Realignment Act will help Federal agencies accomplish this goal, while improving the efficiency and effectiveness of Federal disposals, and saving taxpayer funds. GSA is looking forward to working with partners in the Administration and members of Congress to assist in this effort.

I appreciate the leadership of both the Chairman and the Ranking Member on this matter, and their sincere interest in moving this issue forward. Thank you for the opportunity to come here today. I welcome any of your questions.

United States Government Accountability Office

GAO

Testimony
Before the Subcommittee on Economic
Development, Public Buildings and Emergency
Management, Committee on Transportation
and Infrastructure, House of Representatives

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FEDERAL REAL PROPERTY

Progress Made on Planning and Data, but Unneeded Owned and Leased Facilities Remain

Statement of David J. Wise, Director
Physical Infrastructure Issues

Brian J. Lepore, Director
Defense Capabilities and Management Issues



April 6, 2011



Highlights of GAO-11-520T, a testimony before the Subcommittee on Economic Development, Public Buildings, and Emergency Management, Committee on Transportation and Infrastructure, House of Representatives.

Why GAO Did This Study

The federal government holds more than 45,000 underutilized properties that cost nearly \$1.7 billion annually to operate, yet significant obstacles impede efforts to close, consolidate, or find other uses for them. In January 2003, GAO designated federal real property management as a high-risk area, in part because of the number and cost of these properties. The Office of Management and Budget (OMB) is responsible for reviewing federal agencies' progress in real property management. In 2007, GAO recommended that OMB assist agencies by developing an action plan to address key obstacles associated with decisions related to unneeded real property, including stakeholder influence. The President's fiscal year 2012 budget proposed establishing a legislative framework for disposing of and consolidating civilian real property, referred to as a Civilian Property Realignment Act (CPRA), which may be designed to address stakeholder influences in real property decision making.

This testimony identifies (1) obstacles to effectively managing federal real property, (2) actions designed to overcome those obstacles, including government actions and CPRA, and (3) key elements of the Department of Defense's (DOD) base realignment and closure (BRAC) process that are designed to help DOD close or realign installations and may be relevant for CPRA. To do this work, GAO reviewed GAO reports, other reports, and CPRA.

View GAO-520T or key components. For more information, contact David Wise at (202) 512-2834 or wised@gao.gov or Brian Lepore at (202) 512-4523 or leporeb@gao.gov

FEDERAL REAL PROPERTY

Progress Made on Planning and Data, but Unneeded Owned and Leased Facilities Remain

What GAO Found

In designating federal real property management as a high-risk issue in 2003, GAO found that the federal government faced a number of obstacles to effectively managing its real property. These included its lack of strategic focus on real property issues, a lack of reliable real property data, legal limitations, and stakeholder influence. That year, GAO reported that despite the magnitude and complexity of real-property-related problems, there was no governmentwide strategic focus on real property issues and that governmentwide data were unreliable and outdated. GAO also reported then that before disposing of excess property, the General Services Administration is legally required to follow a lengthy screening process, which includes offering the property to other federal agencies and other entities for public uses. Furthermore, stakeholders—including local governments, private real estate interests, and advocacy groups—may have different interests that do not always align with the most efficient use of government resources.

Since 2003, the federal government has taken steps to address some of these obstacles and improve its real property management. For instance, the administration and real-property-holding agencies have improved their strategic management of real property by establishing an interagency Federal Real Property Council designed to enhance real property planning processes. The government has also implemented controls to improve the reliability of federal real property data. However, many problems related to unneeded property and leasing have persisted because legal limitations and stakeholder influences remain. GAO's 2007 recommendation that OMB develop an action plan is designed to address these problems. In addition, CPRA proposes an independent board to identify facilities for disposal and consolidation, which could streamline legal requirements and mitigate stakeholder influences.

Congress authorized DOD to undergo five BRAC rounds to reduce excess property and realign DOD's workload to achieve efficiencies and savings in property management. The BRAC process, much like CPRA, was designed to address obstacles to closures or realignments, thus permitting DOD to close installations or realign its missions to better use its facilities and generate savings. GAO's prior work on the BRAC process identified certain key elements that may be applicable to managing civilian real property, such as establishing goals and an organizational structure, developing criteria and an analytical framework, using a model to estimate costs and savings, and involving the audit community to better ensure data accuracy. A key similarity between BRAC and CPRA is that both establish an independent board that reviews agency recommendations; a key difference is that the BRAC process created criteria for selecting installations for realignment while CPRA does not include specific criteria to be used to select properties for disposal or consolidation.

Chairman Denham, Ranking Member Norton, and Members of the Subcommittee:

Thank you for the opportunity to testify today on our work related to excess and underutilized federal real property held by the General Services Administration (GSA) and other agencies, as well as our work on the military Base Realignment and Closure (BRAC) process. As we have previously testified before this Subcommittee, the federal government occupies more owned and leased buildings than it needs. In fiscal year 2009, 24 landholding agencies, including the Department of Defense (DOD), reported 45,190 underutilized buildings with a total of 341 million square feet, or 1,830 more such buildings than they reported the previous fiscal year. These underutilized buildings cost \$1.66 billion annually to operate and are potentially valuable. The federal government also leases more property than is cost-efficient, resulting in millions of dollars of additional costs to the federal government. Since 2008, GSA has leased more property than it owns¹—more than 8,000 buildings—even though owning a federal building is often a more cost-effective way of meeting an agency's long-term space needs.² Because of these and other issues, we designated the management of federal real property as a high-risk area in January 2003 and retained that designation in our February 2011 high-risk update.³ Similarly, DOD has faced long-term challenges in managing its portfolio of facilities, halting degradation of facilities, and reducing unneeded infrastructure to free up funds to better maintain the facilities that it still uses and meet other needs. DOD's management of its support infrastructure is also on our high-risk list, in part because of challenges DOD faces in reducing excess and obsolete infrastructure.⁴

As you know, DOD has been working through the BRAC process to reduce the amount of unneeded property that it owns and leases. This process, which is designed to address the obstacles to rightsizing domestic military installations, may also be applicable to civilian real property management.

¹In this testimony, we refer to property that is owned by the federal government and under the control and custody of GSA as GSA-owned property.

²GAO, *Federal Real Property: Strategy Needed to Address Agencies' Long-standing Reliance on Leasing*, GAO-08-197 (Washington, D.C.: Jan. 24, 2008).

³GAO, *High-Risk Series: Federal Real Property*, GAO-03-122 (Washington, D.C.: January 2003) and *High-Risk Series: An Update*, GAO-11-278 (Washington, D.C.: February 2011).

⁴GAO-11-278.

Our testimony today will identify (1) obstacles to effectively managing federal real property, (2) actions designed to overcome those obstacles such as actions the government has taken and the legislative framework for disposing of and consolidating civilian real property proposed in the President's fiscal year 2012 budget, referred to as the Civilian Property Realignment Act (CPRA), and (3) key elements of the BRAC process that are designed to help DOD close or realign installations and may be relevant for CPRA.

To address these objectives, we reviewed previous GAO reports, reports by the interagency Federal Real Property Council (FRPC), and CPRA. We performed this work from March 2011 to April 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The federal real property portfolio is vast and diverse—totaling over 900,000 buildings and structures—including office buildings, warehouses, laboratories, hospitals, and family housing—worth hundreds of billions of dollars. The six largest federal property holders—DOD, GSA, the U.S. Postal Service, and the Departments of Veterans Affairs (VA), Energy, and the Interior—occupy 87.6 percent of the total square footage in federal buildings. Over all, the federal government owns approximately 83 percent of this space and leases or otherwise manages the rest; however, these proportions vary by agency. For example GSA, the central leasing agent for most agencies, now leases more space than it owns. After we designated federal real property as a high-risk area in 2003, the President signed Executive Order 13327 in February 2004, which established new federal property guidelines for 24 executive branch departments and agencies. Among other things, the executive order called for creating the interagency FRPC to develop guidance, collect best practices, and help agencies improve the management of their real property assets.

DOD has undergone four BRAC rounds since 1988 and is currently implementing its fifth round.⁵ Generally, the purpose of prior BRAC rounds was to generate savings to apply to other priorities, reduce property deemed excess to needs, and realign DOD's workload and workforce to achieve efficiencies in property management. As a result of the prior BRAC rounds in 1988, 1991, 1993, and 1995, DOD reported that it had reduced its domestic infrastructure, transferred hundreds of thousands of acres of unneeded property to other federal and nonfederal entities, and saved billions of dollars annually that could be applied to other higher priority defense needs. The 2005 BRAC round affected hundreds of locations across the country through 24 major closures, 24 major realignments, and 765 lesser actions, which also included terminating leases and consolidating various activities.⁶ Legislation authorizing the 2005 BRAC round maintained requirements established for the three previous BRAC rounds that GAO provide a detailed analysis of DOD's recommendations and of the BRAC selection process. We submitted our report to Congress in July 2005 and testified before the BRAC Commission soon thereafter.⁷ Since that time, GAO has published annual reports on the progress, challenges, and costs and savings of the 2005 round, in addition to numerous reports on other aspects of implementing the 2005 BRAC round.⁸

⁵The first round in 1988 was authorized by the Defense Authorization Amendments and Base Closure and Realignment Act, Pub. L. No. 100-526, Title II (1988) (as amended). Subsequently, additional BRAC rounds were completed in 1991, 1993, and 1995 as authorized by the Defense Base Closure and Realignment Act of 1990, Pub. L. No. 101-510, Title XXIX (1990) (as amended). The latest round—BRAC 2005—was authorized by the National Defense Authorization Act for Fiscal Year 2002, Pub. L. No. 107-107, Title XXX (2001).

⁶DOD defines a major closure as a closure where plant replacement values exceed \$100 million and a major realignment as an action with a net loss of 400 or more military and civilian personnel.

⁷GAO, *Military Bases: Analysis of DOD's 2005 Selection Process and Recommendations for Base Closures and Realignments*, GAO-05-785 (Washington, D.C.: July 1, 2005) and *Military Bases: Observations on the 2005 Base Realignment and Closure Selection Process and Recommendations*, GAO-05-905 (Washington, DC: July 18, 2005).

⁸See, for example, GAO, *Military Base Realignments and Closures: DOD Is Taking Steps to Mitigate Challenges, but Is Not Fully Reporting Some Additional Costs*, GAO-10-725R (Washington, D.C.: July 21, 2010) and *Military Base Realignments and Closures: Estimated Costs Have Increased While Savings Estimates Have Decreased Since Fiscal Year 2009*, GAO-10-98R (Washington, D.C.: Nov. 13, 2009).

Underlying Obstacles Have Impeded the Government's Ability to Dispose of Unneeded Property and Reduce Overreliance on Costly Leasing

When we designated federal real property management as high risk, we reported that the federal government faced a number of obstacles to effectively managing its real property. These included a lack of strategic focus on real property issues, a lack of reliable real property data, legal limitations, and stakeholder influences in real property decision making.

Lack of Strategic Focus on Real Property Issues

In 2003, we reported that despite the magnitude and complexity of real-property-related problems, there had been no governmentwide strategic focus on real property issues. Not having a strategic focus can lead to ineffective decision making, such as choosing to rely too much on leasing for long-term government property needs. In 2008, we found that decisions to lease selected federal properties were not always driven by cost-effectiveness considerations. For example, we estimated that the decision to lease the Federal Bureau of Investigation's field office in Chicago, Illinois, instead of constructing a building the government would own, cost about \$40 million more over 30 years. GSA officials noted that limited availability of upfront capital was one of the reasons that prevented ownership at that time. Federal budget scorekeeping rules require the full cost of construction to be recorded up front in the budget, whereas only the annual lease payments plus cancellation costs need to be recorded for operating leases. In April 2007 and January 2008, we recommended that the Office of Management and Budget (OMB) develop a strategy to reduce agencies' reliance on costly leasing where ownership would result in long-term savings. We noted that such a strategy could identify the conditions under which leasing is an acceptable alternative, include an analysis of real property budget scoring issues, and provide an assessment of viable alternatives. OMB concurred with this recommendation but has not yet developed a strategy to reduce agencies' reliance on leasing.

Lack of Reliable Real Property Data

In 2003, we found that a lack of reliable real property data compounded real property management problems. The governmentwide data maintained at that time were unreliable, out of date, and of limited value. In addition, certain key data that would be useful for budgeting and strategic management were not being maintained, such as data on space utilization, facility condition, historical significance, security, and age. We

also found that some of the major real-property-holding agencies faced challenges developing reliable data on their real property assets. We noted that reliable governmentwide and agency-specific real property data are critical for addressing real property management challenges. For example, better data would help the government determine whether assets are being used efficiently, make investment decisions, and identify unneeded properties.

Legal Limitations

In our February 2011 high-risk update,⁹ we noted that a third obstacle to consolidating federal properties is the legal requirements agencies must adhere to before disposing of a property, such as requirements for screening and environmental cleanup. Currently, before GSA can dispose of a property that a federal agency no longer needs, it is required to offer the property to other federal agencies. If other federal agencies do not have a need for the property, GSA must then make the property available to state and local governments and certain nonprofit organizations and institutions for public benefit uses such as homeless shelters, educational facilities, or fire or police training centers. As a result of this lengthy process, GSA's underutilized or excess properties may remain in an agency's possession for years and continue to accumulate maintenance and operations costs. Further complicating this issue is that different agencies have different authorities to enter into leases with public and private entities for the use of federal property, to sell real property, and to retain the proceeds from these transactions. For example, DOD has the authority to both enter into these leases and retain proceeds for the sale of properties, but the Department of Justice does not have the authority to do either. In addition, federal agencies are required by law to assess and pay for any environmental cleanup that may be needed before disposing of a property—a process that may require years of study and result in significant costs. In some cases, the cost of the environmental cleanup may exceed the costs of continuing to maintain the excess property in a shut-down status. We have also noted that 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. Since properties more than 50 years old are eligible for historic designation and the average age of properties in GSA's portfolio is 46 years, this issue will soon become critically important to GSA.

⁹GAO-11-278.

Stakeholder Influences

Local stakeholders—including local governments, business interests, private real estate interests, sector construction and leasing firms, historic preservation organizations, various advocacy groups for citizens that benefit from federal programs, and the public in general—often view federal facilities as the physical face of the federal government in their communities. The interests of these multiple and often competing stakeholders may not always align with the most efficient use of government resources and can complicate real property decisions. For example, as we first reported in 2007, VA officials noted that stakeholders and constituencies, such as historic building advocates or local communities that want to maintain their relationship with VA, often prevent the agency from disposing of properties.¹⁰ In 2003, we indicated that an independent commission or governmentwide task force might be necessary to help overcome stakeholder influences in real property decision making.

The Government Has Adopted a More Strategic Focus to Improve Real Property Management and Has Taken Steps to Increase Data Reliability, but Other Obstacles Remain

The administration and real-property-holding agencies have made progress in a number of areas since we designated federal real property as high risk in 2003. Specifically, the federal government has taken steps toward strategically managing its real property and improving the reliability of its real property data. However, many problems related to unneeded property and leasing persist because the government has not addressed the underlying legal limitations and stakeholder influences which we identified.

As part of the government's efforts to strategically manage its real property, the administration established FRPC—a group composed of the OMB Controller and the senior real property officers of landholding agencies—to support real property reform efforts. Through FRPC, the landholding agencies have also established asset management plans, standardized real property data reporting, and adopted various performance measures to track progress. The asset management plans are updated annually and help agencies take a more strategic approach to real property management by indicating how real property moves the agency's mission forward, outlining the agency's capital management plans, and describing how the agency plans to operate its facilities and dispose of

¹⁰GAO, *Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform*, GAO-07-349 (Washington, D.C.: Apr. 13, 2007).

unnneeded real property, including listing current and future disposal plans. Although several FRPC member agencies said that the body no longer meets regularly, it remains a forum for agency coordination on real property issues and could serve a larger role in future real property management.

In our February 2011 high-risk update,¹¹ we reported that the federal government has also taken numerous steps since 2003 to improve the completeness and reliability of its real property data. FRPC, in conjunction with GSA, established the Federal Real Property Profile (FRPP) to meet a requirement in Executive Order 13327 for a single real property database that includes all real property under the control of executive branch agencies. FRPP contains asset-level information submitted annually by agencies on 25 high-level data elements, including four performance measures that enable agencies to track progress in achieving property management objectives. In response to our 2007 recommendation to improve the reliability of FRPP data, OMB required, and agencies implemented, data validation plans that include procedures to verify that the data are accurate and complete.¹² Furthermore, GSA's Office of Governmentwide Policy (OGP), which administers the FRPP database, instituted a data validation process that precludes FRPP from accepting an agency's data until the data pass all established business rules and data checks. In our most recent analysis of the reliability of FRPP data, we found none of the basic problems we have previously found, such as missing data or inexplicably large changes between years. In addition, agencies continue to improve their real property data for their own purposes. From a governmentwide perspective, OGP has sufficient standards and processes in place for us to consider the 25 elements in FRPP as a database that is sufficiently reliable to describe the real property holdings of the federal government. Consequently, we removed the data element of real property management from the high-risk list this year.

In 2007, we recommended that OMB, which is responsible for reviewing agencies' progress on federal real property management, assist agencies by developing an action plan to address the key problems associated with decisions related to unnneeded real property, including stakeholder influences. OMB agreed with the recommendation but has yet to

¹¹GAO-11-278.

¹²GAO-07-349.

implement it. However, the administration's recently proposed legislative framework, CPRA, is somewhat responsive to this recommendation in that it addresses both legal limitations and stakeholder influences in real property decision making. According to the proposal, the purpose of CPRA would be, in part, to "streamline the current legal framework" and "facilitate the disposal of those unneeded civilian real properties that are currently subject to legal restrictions that prevent their disposal." The proposal itself, however, does not describe how this streamlining would be accomplished. To address stakeholder influences, CPRA would create an independent board to recommend federal properties for disposal or consolidation after receiving recommendations from civilian landholding agencies. Grouping all disposal and consolidation decisions into one list that Congress would vote on in its entirety could help to blunt local stakeholder influences at any individual site. In addition, CPRA could help to reduce the government's overreliance on leasing by recommending that the government consolidate operations from leased space to owned space where efficient.

Key Elements That Underpin the Process for Closing or Realigning DOD Installations May Be Applicable to Managing Civilian Real Property

In our prior work on the BRAC process, we identified certain key elements underpinning the process, which may be applicable to the management of real property governmentwide. The BRAC process was designed to address certain challenges to closures or realignments, including stakeholder interests, thereby permitting DOD to dispose of installations or realign its missions to better use its facilities and generate savings. The 2005 BRAC round followed a historical analytical framework, carrying many elements of the process forward or building upon lessons learned from previous rounds. DOD also established a structured process for obtaining and analyzing data that provided a consistent basis for identifying and evaluating closure and realignment recommendations, and DOD used a logical, reasoned, and well-documented process.¹³ In addition, we have identified lessons learned from DOD's 1988, 1991, 1993, and 1995 rounds,¹⁴ and we have begun an effort to assess lessons learned from the 2005 BRAC round.

¹³GAO-05-785.

¹⁴GAO, *Military Bases: Lessons Learned From Prior Base Closure Rounds*, NSIAD-97-151 (Washington, D.C.: July 25, 1997).

DOD's 2005 BRAC Process DOD's 2005 BRAC process consisted of a series of legislatively-prescribed steps, as follows:

DOD began to develop options for closure or realignment recommendations. The military departments developed service-specific installation closure and realignment options. In addition, the Office of the Secretary of Defense established seven joint cross-service teams, called joint cross-service groups, to develop options across common business-oriented functions, such as medical, supply storage, and administrative activities. These closure and realignment options were reviewed by DOD's Infrastructure Executive Council—a senior-level policy-making and oversight body for the entire process. Options approved by this council were submitted to the Secretary of Defense for his review and approval. DOD developed hundreds of closure or realignment options for further analysis which eventually led to DOD's submitting over 200 recommendations to the BRAC Commission for analysis and review.

BRAC Commission performed an independent review of DOD's recommendations. After DOD selected its base closure and realignment recommendations, it submitted them to the BRAC Commission, which performed an independent review and analysis of DOD's recommendations. The Commission could approve, modify, reject, or add closure and realignment recommendations.¹⁵ Also, the BRAC Commission provided opportunities to interested parties, as well as community and congressional leaders, to provide testimony and express viewpoints. The Commission then voted on each individual closure or realignment recommendation, and those that were approved were included in the Commission's report to the President. In 2005, the BRAC Commission reported that it had rejected or modified about 14 percent of DOD's closure and realignment recommendations.

President approved BRAC recommendations. After receiving the recommendations, the President was to review the recommendations of the Secretary of Defense and the Commission and prepare a report by September 23, 2005, containing his approval or disapproval of the Commission's recommendations as a whole. Had the President disapproved of the Commissions' recommendations, the Commission would have had until October 20, 2005, to submit a revised list of

¹⁵The BRAC Commission was composed of nine Commissioners appointed by the President, six of whom were appointed in consultation with the congressional leadership.

recommendations to the President for further consideration. If the President had not submitted a report to Congress of his approval of the Commissions recommendations by November 7, 2005, the BRAC process would have been terminated. The President submitted his report and approval of the 2005 Commission's recommendations on September 15, 2005.

Congress allowed the recommendations to become binding. After the President transmitted his approval of the Commission's recommendations to Congress, the Secretary of Defense would have been prohibited from implementing the recommendations if Congress had passed a joint resolution of disapproval within 45 days of the date of the President's submission or the adjournment of Congress for the session, whichever was sooner.¹⁸ Since Congress did not pass such a resolution, the recommendations became binding in November 2005.

Congress established clear time frames for implementation. The BRAC legislation required DOD to complete recommendations for closing or realigning bases made in the BRAC 2005 round within the 6-year time frame ending on September 15, 2011, 6 years from the date the President submitted his approval of the recommendations to Congress. In July 2010, in our most recent report on the implementation of the 2005 BRAC recommendations, we reported that many DOD locations are scheduled to complete actions to implement the recommendations within months of the deadline, leaving little or no margin for slippage to finish constructing buildings and to move or hire the needed personnel.

Key Elements That DOD Used to Develop Its 2005 BRAC Recommendations Could Be Considered in a Civilian Real Property Closure or Realignment Process

In developing its recommendations for the BRAC Commission, DOD relied on certain elements, as follows:

Establish goals for the BRAC process. Prior to the start of the 2005 BRAC round, the Secretary of Defense emphasized the importance of transforming the military to make it more efficient as part of the 2005 BRAC round. Other goals for the 2005 BRAC process included fostering jointness among the four military services, reducing excess infrastructure,

¹⁸Congress had 45 days (excluding certain adjournments) or until the adjournment of Congress, whichever came first, to enact a joint resolution disapproving the recommendations as a whole.

and producing savings. Prior rounds were more about reducing excess infrastructure and producing savings.

Develop criteria for evaluating closures and realignments. DOD initially proposed eight selection criteria, which were made available for public comments via the Federal Register. Ultimately, Congress enacted the eight final BRAC selection criteria.¹⁷ In authorizing the 2005 BRAC round, Congress specified that the following four selection criteria, known as the "military value criteria," were to be given priority in developing closure and realignment recommendations:

- current and future mission capabilities and the impact on operational readiness of the total force,
- availability and condition of land, facilities, and associated airspace at both the existing and the potential receiving locations,
- ability to accommodate a surge in the force and future total force requirements at both the existing and the potential receiving location to support operations and training, and
- costs of operations and personnel implications.

In addition to military value, Congress specified that DOD was to apply the following "other criteria" in developing its recommendations:

- costs and savings associated with a recommendation,
- economic impact on local communities near the installations,
- ability of infrastructure to support forces, missions, and personnel, and
- environmental impact.

Additionally, Congress required that the Secretary of Defense develop and submit to Congress a force structure plan that laid out the numbers, size, and composition of the units that comprise U.S. defense forces, for example, divisions, ships, and air wings, based on the Secretary's assessment of the probable national security threats for the 20-year period beginning in 2005, along with a comprehensive inventory of global military

¹⁷Section 2832 of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Pub. L. No. 108-375 (2004)).

installations.¹⁸ In authorizing the 2005 BRAC round, Congress specified that the Secretary of Defense publish a list of recommendations for the closure and realignment of military installations inside the United States based on the force-structure plan and infrastructure inventory, and on the eight final selection criteria.

Estimate costs and savings to implement closure and realignment recommendations. To address the cost and savings criteria, DOD developed and used the Cost of Base Realignment Actions model—known as COBRA—a quantitative tool that DOD has used since the 1988 BRAC round to provide consistency in potential cost, savings, and return-on-investment estimates for closure and realignment options. We reviewed the COBRA model as part of our review of the 2005 and prior BRAC rounds and found it to be a generally reasonable estimator for comparing potential costs and savings among alternatives. As with any model, the quality of the output is a direct function of the input data. Also, the COBRA model relies to a large extent on standard factors and averages and does not represent budget quality estimates that are developed once BRAC decisions are made and detailed implementation plans are developed. Nonetheless, the financial information provides important input into the selection process as decision makers weigh the financial implications—along with military value and other factors—in arriving at final decisions regarding the suitability of various closure and realignment options. However, based on our assessment of the 2005 BRAC round, actual costs and savings were different from estimates. As we reported in November 2009,¹⁹ BRAC one-time implementation costs have risen to almost \$35 billion in fiscal year 2010 compared with DOD's initial estimate of \$21 billion in 2005. Similarly, net annual recurring savings have dropped to \$3.9 billion in fiscal year 2010 compared with the \$4.2 billion DOD estimated in 2005.²⁰

¹⁸Section 9001 of the National Defense Authorization Act for Fiscal Year 2002 (Pub. L. No. 107-107 (2001)), amended the Defense Base Closure and Realignment Act of 1990 (Pub. L. No. 101-510 (1990)) to, among other things, require DOD to develop a 20-year force structure plan as the basis for its 2005 BRAC analysis to include the probable end strength levels and major military force units needed to meet the probable threats identified by the Secretary and a comprehensive inventory of military installations worldwide.

¹⁹GAO-10-98R.

²⁰As we have previously reported, we and the BRAC Commission believe that DOD's net annual recurring savings estimates are overstated because they include savings from eliminating military personnel positions without corresponding decreases in personnel end-strength. DOD disagrees with our position.

Establish a common analytical framework. To ensure that the selection criteria were consistently applied, the Office of the Secretary of Defense required the military services and the seven joint cross-service groups to first perform a capacity analysis of facilities and functions at specific locations prior to developing recommendations. The capacity analysis relied on data calls to hundreds of locations to obtain certified data to assess such factors as maximum potential capacity, current capacity, current usage, and excess capacity. Then, the military services and joint cross-service groups performed a military value analysis for the facilities and functions that included a facility's or function's current and future mission capabilities, physical condition, ability to accommodate future needs, and cost of operations.

Establish an organizational structure. As previously mentioned, the Office of the Secretary of Defense emphasized the need for joint cross-service groups to analyze common business-oriented functions. For the 2005 round, as for the 1993 and 1995 rounds, these joint cross-service groups performed analyses and developed closure and realignment options in addition to those developed by the military departments. In contrast, our evaluation of DOD's 1995 round indicated that few cross-service recommendations were made, in part because of the lack of high-level leadership to encourage consolidations across the services' functions.²¹ In the 1995 round, the joint cross-service groups submitted options through the military departments for approval, resulting in few being approved. The number of approved recommendations that the joint cross-service groups developed significantly increased in the 2005 round. This was due, in part, to high-level leadership's ensuring that the options were approved not by the military services but rather by a DOD senior-level group. Also, one of these joint cross-service groups developed a number of recommendations to realign administrative-type functions out of leased space into DOD-owned facilities.

Involve the audit community to better ensure data accuracy. The DOD Inspector General and military service audit agencies played key roles in identifying data limitations, fostering corrections, and improving the accuracy of the data used in the process. The oversight roles of the audit organizations, given their access to relevant information and officials as the process evolved, helped to improve the accuracy of the data used in the BRAC process and added an important aspect to the quality and

²¹NSIAD-97-151.

integrity of the data used to develop closure and realignment recommendations.

There are a number of important similarities and differences between BRAC and a civilian process as proposed in CPRA. As a similarity, both BRAC and CPRA employ the all-or-nothing approach to disposals and consolidations, meaning that once the final list is approved, it must be approved or rejected as a whole. This approach can help overcome stakeholders' interests. Another similarity may be the need for a phased approach. Through the five prior BRAC rounds, DOD has reduced its domestic infrastructure, transferred hundreds of thousands of acres of unneeded property to other federal and nonfederal entities, and saved funds for application to higher priority defense needs. Similarly, it may take several BRAC-like rounds to complete the disposals and consolidations of civilian real property owned and leased by many disparate agencies including GSA, VA, Interior, and the Department of Energy. On the other hand, an important difference in the two processes may be the role of the independent board. DOD has participated in the BRAC process by generating lists of bases to close and realign that the last four BRAC Commissions have then reviewed. On the civilian side, however, agencies would provide recommendations to the proposed civilian board, but the board would ultimately be responsible for developing the lists of disposals and consolidations.

In closing, the government has made strides toward strategically managing its real property and improving its real property planning and data over the last 10 years, but those efforts have not yet led to sufficient reductions in excess property and overreliance on leasing. DOD's experiences with BRAC, including establishing criteria and a common analytical framework up front, could help this effort move forward.

Chairman Denham, Ranking Member Norton, and Members of the Subcommittee, this concludes our prepared statement. We will be pleased to answer any questions that you may have at this time.

For further information on this testimony, please contact David Wise at (202) 512-2834 or wised@gao.gov regarding federal real property, or Brian Lepore at (202) 512-4523 or leporeb@gao.gov regarding the Base Realignment and Closure process. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement. In addition to the contacts named above, Keith Cunningham, Assistant Director; Laura Talbott, Assistant Director; Vijay Barnabas;

Hilary Benedict; Jessica Bryant-Bertail; Elizabeth Eisenstadt; Sarah Farkas; Susan Michal-Smith; and Michael Willems made important contributions to this statement.

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Testimony

of

Anthony J. Principi

Former Chairman, 2005 Base Realignment and Closure Commission

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Before the

Subcommittee on Economic Development,
Public Buildings and Emergency Management, House Committee on
Transportation and Infrastructure

Rayburn House Office Building, Room 2167

Wednesday, April 6, 2011

Good morning Chairman Jeff Denham, Ranking Member Holmes Norton and members of the Subcommittee. I welcome your invitation to comment on the question of whether a civilian BRAC Commission can consolidate federal office space and save taxpayers billions. The simple answer is yes if structured properly. Most likely the more important underlying question is whether the Administration and the Legislative branches can afford not to execute a civilian and military BRAC to relieve itself of costly and un-needed infrastructure in order to achieve badly needed cost savings to the federal budget. As we have all learned, the process does not come without pain at the Federal level in deciding what to close or consolidate, at the Congressional level in fielding constituent concerns, and at the local community level where jobs and the economy may be negatively affected. There will be tough choices in tough times. My comments today will be addressed from my experiences as former Chairman of the 2005 BRAC Commission and former Secretary of the Department of Veterans Affairs.

I think that it would be helpful to review why a BRAC process was even necessary. In the early 1960's, at the President's direction, Secretary of Defense Robert McNamara implemented a base closure program with minimal consultation with the military departments or the Congress. Hundreds of base closures and realignments took place and more than 60 major bases were closed. In 1965 President Johnson vetoed legislation that would have established more Congressional oversight in any DoD base closure program. As a result, more bases were routinely closed during the 1960s. In the 1970s, feeling the anguish from constituents, Congress added a provision to the 1976 MILCON Authorization Bill prohibiting any base closure or reduction involving more than 250 civilian jobs. President Ford vetoed the Bill and Congress failed to override the veto. It wasn't until 1977 that Congress effectively put a halt to base closures in spite of DoD efforts to do so over the next ten years.

In 1988, the DoD budget declined for three straight years and was predicted to decline further. To ensure that scarce DoD resources would be devoted to more pressing operational missions and investment needs rather than maintaining unneeded facilities, Secretary of Defense Frank Carlucci chartered the "Defense Secretary's Commission on BRAC that Congress enacted into law (PL 100-526) in 1988 that provided the statutory basis for this one-time approach. In spite of the fact that the Secretary of Defense appointed the Commission, reported to him, that most hearing and votes were closed and that there was little public information about how the Commission arrived at its recommendations, Congress did not enact a joint resolution of disapproval. 86 military facilities were closed and 59 other realigned with annual savings estimated at \$694 million. However, there were many critics of the 1988 BRAC who decried the lack of transparency and independence of the Commission and felt the closure list unfairly targeted facilities located in Congressional districts of Members out of favor with the Administration. It was not until 1990 that Congress passed the Defense Base Closure and Realignment Act (PL 101-510) when Secretary of Defense Cheney unilaterally proposed closing 35 bases and realigning 20 others. That Act brought transparency to the process and independence to the Commission. Consequently, there were BRAC Commissions in 1991, 1993, 1995 and 2005 that have withstood the test of time, effectiveness, and cost savings.

BRAC is a major undertaking to be sure – but if done right – it can be as open, deliberative, inclusive, and non-partisan a process, as any I have seen in my professional career. I strived to

make it so in 2005. I can assure you that it was not an easy process. On May 13, 2005, the BRAC commission received a total of 190 recommendations from DoD that would in effect close or realign 837 military activities nationwide. Not only were the recommendations double in number from the previous BRAC round – but they were greater than all previous BRAC's combined. We had four months to complete our mission.

Over the course of those four months, our commissioners and staff made 182 visits to 173 installations. We conducted 20 regional hearings and another 20 legislative and deliberative hearings, as well as hundreds of meetings with community representatives and elected officials and then prepared a 338 page report of our findings and recommendations to reach the president and the Congress by the legislatively imposed deadline of September 8, 2005. In my view, the lessons learned from this can be applied to other federal agencies with unneeded infrastructure.

Briefly turning to my experience as Secretary of Veterans Affairs, I soon learned after confirmation in 2001 that due to the new paradigm of modern health care that provides 80% of medical care on an outpatient basis and the low occupancy rate in a number of our VA medical hospitals, the Department needed a major assessment to realign its infrastructure needs with its mission of providing care to wounded or injured veterans. I created a Commission called the Capital Assessment Realignment for Enhanced Services – otherwise known as the CARES Commission to assess the VA's recommendations for closures and realignments. Unfortunately, I did not have the all-or-nothing safeguards of the BRAC law and as a result, a number of the Commission's recommendations for closure or downsizing did not withstand Congressional direction. I understand VA facilities would be considered as well in the Civilian Property Realignment Act. In my view, this would potentially free up funds needed for veteran's medical care and the increasing veteran benefit payments.

Turning to the current Administration's proposal to establish a BRAC-like process to dispose of and/or realign Federal civilian real property through a civilian commission, I strongly endorse the proposed Civilian Property Realignment Act and would suggest several changes for your consideration. In reviewing the Administration's proposed legislation, I find the purpose clear. In particular, I find myself in agreement with the purpose to enable Federal agencies to retain and reinvest savings and sales proceeds. In my view, this will provide an incentive to these agencies to identify costly or unneeded facilities.

Secondly, the Act would create a seven (7) person Civilian Property Realignment Board to assess the recommendations submitted by the Federal agencies. In addition to the need to spell out the qualifications for appointment to Board, I would strongly recommend that to ensure the Board's independence, the President appoint five members including its Chairman while the Majority and Minority leaders of both Houses of Congress appoint a member. This would raise the total of the Board to nine people. I also suggest that a Commission be established in lieu of a Board and that all Commissioners be confirmed by the Senate.

Third, the Act proposes that all proceedings, information, and deliberations of the Board "shall be open, upon request, to the Chairman and Ranking Member of several Senate and House Subcommittees. Again, in the interest of transparency, I would propose that all proceedings, information as well as Board deliberations not classified be made concurrently public as was

done by BRAC Commissions. The 2005 BRAC Commission maintained an internet website for this purpose.

Fourth, I give pause to the proposal that the Board report its findings, conclusions and recommendations to the Director of OMB. The proposed Act also proposes authority for the Director of OMB to manage the process including the authority to approve or disapprove the Commission's recommendations. Accountability and authority, in my view, should rest with the President. As with the BRAC Commission neither the President nor the Director of OMB should have the "final" authority to approve or disapprove the recommendations. If the President disagrees with the recommendations they should be returned to the Board for a limited period of time at which point they can be changed or sent directly to the Congress for a vote.

Fifth, I note the absence of any proposed criteria that would govern the deliberations of the Board. Such criteria should be promulgated in the Federal Register for comment and included in the Act. The Board would be bound by these criteria in making their recommendations to the President and Congress.

Sixth, one of the real lessons learned from the 2005 BRAC was the need for an effective accounting tool to estimate the true cost savings and true costs for each recommended closure and realignment. The Department of Defense utilized a cost accounting method called the Cost of Base Realignment Actions (COBRA) to project costs and savings in Net Present Value. In the case of BRAC 2005, transformation and not cost savings was the key driver in the Secretary's recommendations to the Commission.

I thank you for the opportunity to appear before you and I am prepared to respond to any questions you may have.

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**Testimony of Daniel I. Werfel
Controller, Office of Management and Budget
before the
Subcommittee on Economic Development, Public Buildings, and Emergency Management
House Committee on Transportation and Infrastructure
April 6, 2011**

Thank you, Chairman Denham, Ranking Member Norton, and members of the Subcommittee, for the invitation to discuss the President's Civilian Property Realignment Act proposal with you today.

In this year's State of the Union address, the President stated that we cannot win the future with the government of the past. Stated differently, significant improvements in government performance will require significant changes in how we conduct our business. Among these is a bold new approach advanced in the President's FY 2012 Budget for right-sizing the Federal real estate inventory, which builds on the model successfully used in the past for defense properties.

As described in greater detail throughout my testimony, the President proposes to empower an independent Board to break through longstanding bureaucratic, financial, and political barriers in a manner that:

- Converts a broader pool of unneeded real estate into reductions in the Federal deficit;
- Positions the government to ensure that its real estate inventory is better tailored to the realities of how we operate and deliver services in the 21st century; and
- Achieves longer-term and sustainable improvements in real estate related operating costs and energy efficiencies.

Background

Each year, the Federal government wastes taxpayer dollars on government properties that it no longer needs. These properties include roughly 14,000 buildings and structures currently designated as excess and about 55,000 properties identified as underutilized. There are also significant opportunities for realigning our real estate that Federal agencies have yet to identify due to political, financial, and other constraints. We need to take immediate steps to take advantage of the many opportunities that have already been identified to date and simultaneously move forward on additional and more transformational possibilities.

Inefficiency associated with the management of Federal real estate is a longstanding problem. In the 1960's, President Nixon tried to address the problem by creating a Real Property

Management Program.¹ Almost two decades later, President Reagan issued two separate executive orders to try to fix real property management.² In 2004, President Bush issued Executive Order 13327 to create the Federal Real Property Council and order the creation of a Federal inventory (the Federal Real Property Profile) to be maintained by the General Services Administration (GSA).

Accomplishments

As part of the Accountable Government Initiative, President Obama has made real property reform a priority. Last year, the President issued a memorandum titled “Disposing of Unneeded Federal Real Estate” and ordered agency leaders to take aggressive action to reduce their real estate footprint. The President also set a goal of \$3 billion in savings. Agencies have made good progress to date, identifying \$1.7 billion toward meeting this goal by the end of FY 2012. However, our work with agencies on their real estate plans has made it apparent that major savings opportunities, that could yield significantly more than the \$3 billion savings goal, lie within our grasp, but cannot be implemented with the traditional tools available for managing our real property assets. The proposal I am here today to speak to you about represents a significant expansion of the Administration’s efforts.

Building on Past Success

Historically, progress in management of civilian real estate has been relatively modest when compared to the Department of Defense’s Base Realignment and Closure (BRAC) program. Established in the 1980’s, BRAC transformed the military’s real property inventory through its own comprehensive process. Under BRAC, military real estate and opportunities for consolidation are dealt with collectively through a process that includes an independent commission and up or down votes by Congress on a package of realignments, consolidations, and other related actions. This approach helps overcome the roadblocks that had previously made base closure and realignment nearly impossible. BRAC efforts are expected to result in more than \$100 billion in net savings over the next 20 years.

The President’s Civilian Property Realignment Act (CPRA) proposal builds on the best practices of BRAC. Like BRAC, the proposal would establish an independent board of experts to expedite disposal of a selection of unneeded properties and identify opportunities to consolidate agency offices. The CPRA Board would present recommendations to Congress on bundles of identified properties in the greater Federal inventory to be voted on in an up or down manner. Similar to BRAC, the process also streamlines the current authorities that are involved in any disposal or consolidation of properties identified by the Board.

¹Richard Nixon: Statement About a Report of the Property Review Board, July 25, 1972, *available at*: <http://www.presidency.ucsb.edu/ws/index.php?pid=3503&st=&st1=#ixzz11BqsBude>

² Ronald Reagan: Executive Orders 12348 and 12512, *available at*: <http://www.presidency.ucsb.edu/ws/index.php?pid=42208#axzz110qF68zN>; <http://www.reagan.utexas.edu/archives/speeches/1985/42985h.htm>

Most importantly, the CPRA process will be successful because, like BRAC, it is a comprehensive solution to the three primary obstacles standing in the way of efficient real property management: red tape, financial disincentives, and political considerations.

Red Tape

There are more than 20 steps in the process required to sell or otherwise dispose of any given federal property. There are good reasons why these steps exist (e.g. environmental law, assuring good title to land); however, it does not make sense to apply the steps uniformly – it is inefficient to use the same process to sell a small warehouse in a rural location as is used to sell an office building in a downtown urban setting. Inevitably, the red tape involved slows down the disposal or consolidation process and acts as a disincentive for agencies to better manage their inventory.

The CPRA proposal cuts through the red tape in two ways: by accelerating the process through which the government chooses what to do with a property, and then by expediting the implementation of recommended disposals or consolidations for those properties identified by the Board. This approach eliminates the one-size-fits-all process that exists today.

The CPRA Board speeds up the decision of what to do with the properties that it identifies by applying a more rational approach to existing review requirements. After conducting both a review of agency disposal plans and its own independent analysis of agency inventories, the Board will issue a report with a list of recommended actions. This report will include directions to send some of its selected properties directly to sale without going through any other required steps in the disposal process, such as review by certain preferred parties outside of the Federal government. Other selected properties on the list will be set aside and directed immediately to a public benefit conveyance, such as to one of thirteen sponsored programs (e.g. parks, schools, historical preservation, etc.).

The CPRA proposal also speeds up the implementation of sales and conveyances for the properties recommended by the Board for realignment. In some circumstances, properties identified through this process will benefit from environmental authorities that parallel those used by the BRAC commission, which allowed for reduction in transaction time and cost. Instead of undergoing the current step-by-step process that can take up to a year, properties on the CPRA list of recommendations that are chosen for public benefit conveyance will go through reviews concurrent to one another to avoid wasting time. This improved process will accelerate implementation while preserving the core mission of the public benefit program.

Financial disincentives

There are many upfront costs agencies incur when disposing of properties or realigning space, such as for moving expenses, reconfiguring space, environmental remediation, etc. However, in many cases, agencies do not benefit financially from the sale of property by retaining some of the proceeds. Therefore, it can end up costing more money to sell a property than to maintain it in a vacant state from year-to-year, even when there are obvious long-term

savings that could be achieved. On top of this disincentive, often an agency does not have the upfront capital to cover the short-term costs.

To address this issue, the CPRA Board would utilize a revolving fund and would structure the division of proceeds to provide agencies with funding and incentives for disposals and consolidations. The proposal creates an Asset Proceeds and Space Management Fund, a pool of money that the Board can use to provide discretionary logistical and financial support to agencies to ready properties for disposal, consolidation, or reconfiguration, as a result of a Board recommendation. The Board will retain 40% of net proceeds from any disposal that results from a Board recommendation, in order to pay for the Board's continued operations, replenish the funding pool in the Asset Proceeds and Space Management Fund, and provide funding for agencies' capital improvement accounts. The Board will also send at least 60% of the net proceeds from any Board-recommended disposal to the Treasury General Fund for deficit reduction.

Political Considerations

Extremely challenging political realities emerge when the Federal government proposes to vacate, transfer, or sell real estate. Such proposals affect numerous, competing, and legitimate stakeholder interests, each with a different perspective on whether the Federal government should vacate the property and what will become of the property once the Federal government interest ends. For civilian assets today, the inability to resolve these competing interests not only slows or stymies identified opportunities for realignment but also creates a powerful disincentive for Federal agencies to initiate or consider new and bold opportunities for realignment.

The CPRA proposal helps overcome this challenge in a manner similar to the process employed by BRAC. The independent CPRA Board's mission is to balance all views and determine the optimal overall outcome for the taxpayer. Further, the Board will not recommend disposals or consolidations on an individual basis; rather, it will bundle a package of recommendations that succeed or fail together. Following an OMB review, Congress will have 45 days to consider the recommendations, and only a "no" vote can prevent the recommendation from moving forward. Congress, like OMB, cannot veto individual recommendations. Its sole options are either to endorse or reject the whole package. The BRAC process proved that this approach can overcome the challenge posed by competing stakeholders that makes the typical one-by-one property disposal difficult.

Conclusion

The Federal government has tens of thousands of government properties that it no longer needs to fulfill its mission for the American people. This would be an unacceptable waste of taxpayer dollars at any time; but it's particularly unacceptable today, when we have a pressing need to rein in our spending and reduce our deficits. When families are watching every penny, and making tough choices, they have a right to expect their government to do the same and operate as efficiently as possible. We can no longer continue to operate using the costly real property inventory of 60 years ago. By using the BRAC model to address this issue, we can leverage our portfolio to improve the delivery of government services to the taxpayer, reduce the

government's energy footprint, and send proceeds from the sale of unneeded Federal properties back to the Treasury to reduce the deficit. We cannot achieve these important goals using the same techniques that have been failing us since the 1960's. It is time for a bold new step – I invite you to support the President's Civilian Property Realignment Act and help bring about a transformation of real property management.

Thank you for inviting me to testify today. I look forward to answering your questions.