

**GAO**

Report to the Ranking Member,  
Committee on Veterans' Affairs, House  
of Representatives

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September 2008

# FEDERAL REAL PROPERTY

Progress Made in  
Reducing Unneeded  
Property, but VA  
Needs Better  
Information to Make  
Further Reductions



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# Highlights

Highlights of [GAO-08-939](#), a report to the Ranking Member, Committee on Veterans' Affairs, House of Representatives

## Why GAO Did This Study

The Department of Veterans Affairs (VA) operates one of the largest healthcare-related real estate portfolios in the nation. However, many VA facilities are older and no longer well suited to providing care, leaving VA with millions of square feet of property it does not use to capacity (underutilized) or at all (vacant). VA has various legal authorities that allow it to dispose of such property. GAO was asked to identify (1) VA's progress in reducing underutilized or vacant property and how much VA spends operating the underutilized or vacant property it retains; (2) VA's use of its various legal authorities to reduce underutilized and vacant property and the extent to which VA tracks how these authorities contribute to reductions; and (3) the challenges VA faces in minimizing underutilized and vacant space and the strategies VA is using to address these challenges. To accomplish these objectives, GAO reviewed VA property data, and visited eight VA locations based on space utilization, use of authorities, and other factors. GAO also interviewed officials from various VA offices and stakeholders.

## What GAO Recommends

GAO's recommendations to VA include (1) developing an annual cost estimate of spending on underutilized and vacant property and (2) collecting and maintaining building-level data by fiscal year. VA concurred with the first recommendation but not the second, believing its current analysis is adequate, which GAO continues to question.

To view the full product, including the scope and methodology, click on [GAO-08-939](#). For more information, contact Mark Goldstein at (202) 512-2834 or [goldsteinm@gao.gov](mailto:goldsteinm@gao.gov).

## FEDERAL REAL PROPERTY

### Progress Made in Reducing Unneeded Property, but VA Needs Better Information to Make Further Reductions

#### What GAO Found

VA has made significant progress in cutting underutilized space in its buildings from 15.4 million square feet in fiscal year 2005 to 5.6 million square feet in fiscal year 2007, and although the number of vacant buildings decreased, the amount of vacant space remained relatively unchanged at approximately 7.5 million square feet. GAO estimated VA spent \$175 million in fiscal year 2007 operating underutilized and vacant space at its medical facilities, where 98 percent of such space exists. GAO developed this estimate because VA does not track the cost of operating underutilized and vacant building space at the building level and has not developed a reliable method for doing so.

VA's use of various legal authorities such as enhanced-use leases and sharing agreements likely contributed to the overall reduction of underutilized space, but VA does not track the effect of these authorities. Their use provides VA with revenue and services. Revenue comes from such diverse sources as rent for space and money paid for using buildings as film sets, among other things. For example, at Fort Howard, Maryland, in 2006, VA entered into a new enhanced-use lease with a developer to build a retirement community where veterans are given priority for occupancy. However, the lack of building-level information about the extent to which these authorities reduce underutilized or vacant space or provide benefits such as revenue or services means that VA cannot track, monitor, or evaluate their impact or determine which authorities have the greatest effect from year to year.

VA faces several challenges to minimizing underutilized and vacant space and is using strategies at some facilities to mitigate them. One challenge is location: VA officials reported difficulty finding entities interested in using underutilized or vacant property in areas with low property values. Another challenge is cost: many of VA's underutilized or vacant buildings are in poor condition and require an estimated \$3 billion in repairs before they can be fully utilized. Finally, competing stakeholder interests and legal and budgetary limitations can further impede VA's efforts. To mitigate these challenges, individual VA locations have used strategies such as improving communication with veterans groups and other external stakeholders, obtaining support from internal stakeholders, and entering into public-private partnerships.

#### Examples of Vacant Buildings at VA Medical Facilities in Marion, Indiana and Dayton, Ohio



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### Abbreviations

EUL	enhanced-use lease
GSA	General Services Administration
McKinney-Vento Act	Stewart B. McKinney Homeless Assistance Act
NCA	National Cemetery Administration
OMB	Office of Management and Budget
VA	Department of Veterans Affairs
VBA	Veterans Benefits Administration
VHA	Veterans Health Administration

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United States Government Accountability Office  
Washington, DC 20548

September 10, 2008

The Honorable Steve Buyer  
Ranking Member  
Committee on Veterans' Affairs  
House of Representatives

Dear Mr. Buyer:

With more than 32,000 acres of land and over 6,200 buildings on approximately 300 sites, the Department of Veterans Affairs (VA) is among the largest federal property-holding agencies and the operator of one of the largest healthcare-related real estate portfolios in the nation. However, many of VA's facilities were built more than 50 years ago and are no longer well suited to providing care in the current VA system. As a result, VA has millions of square feet of property that it does not use to capacity (underutilized) or at all (vacant) because of age, condition, location, or other factors. Operating and maintaining unneeded property requires VA to spend appropriations that could otherwise be used to provide direct medical care or other services. For all federal agencies, including VA, we have identified real property management as a high-risk area due to long-standing problems, including underutilized and vacant building space and unneeded land.<sup>1</sup>

Since 1999, VA has placed increased emphasis on reducing underutilized and vacant property, including buildings and land. For example, the agency initiated a process known as the Capital Asset Realignment for Enhanced Services, a comprehensive, long-range assessment of its healthcare system's capital asset requirements, to address its obsolete infrastructure. VA also has various legal authorities that provide options to help reduce its underutilized and vacant property. For instance, VA has authority to enter into a particular type of lease, called an enhanced-use

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<sup>1</sup>We have reported that more than 30 federal agencies, including VA, control a valuable portfolio of facilities and land that is at high risk due to vulnerabilities to waste, fraud, abuse, and mismanagement or major challenges associated with managing it in an efficient or effective manner. See GAO, *Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform*, [GAO-07-349](#) (Washington, D.C.: Apr. 13, 2007); *Federal Real Property: Excess and Underutilized Property Is an Ongoing Problem*, [GAO-06-248T](#) (Washington, D.C.: Feb. 6, 2006); and *High-Risk Series: Federal Real Property*, [GAO-03-122](#) (Washington, D.C.: January 2003).

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lease (EUL), which allows the agency to enter into long-term agreements with public and private entities for the use of VA property, resulting in cash or in-kind consideration for VA. Additionally, the Veterans Health Administration (VHA) has authority to enter into sharing agreements with entities to provide the use of VHA space for the benefit of veterans or nonveterans in exchange for payment or services.

To provide you with information on VA's progress in reducing underutilized and vacant property and challenges to VA's efforts, this report addresses the following questions: (1) To what extent has VA reduced underutilized or vacant property, and how much does it spend maintaining the underutilized or vacant property it retains? (2) How has VA used its authorities to reduce underutilized and vacant property and to what extent does it track how these authorities contribute to reductions? (3) What, if any, challenges does VA face in minimizing underutilized and vacant property, using EULs and other agreements, and what steps is VA taking to address these challenges?

To identify changes in the amount of underutilized and vacant property, we analyzed property data from two VA databases: the Capital Asset Inventory database for building-level data from fiscal years 2006 and 2007, and the Capital Asset Management System for station-level<sup>2</sup> data from fiscal years 2005 through 2007.<sup>3</sup> The earliest year for which VA property data were available was fiscal year 2005 for station-level data and fiscal year 2006 for building-level data. We took steps to assess the reliability of the data used in this report by interviewing agency officials knowledgeable about the data, reviewing systems documentation, performing electronic testing to identify obvious errors in accuracy and completeness, and corroborating data we received with other sources. We determined that the data we used were sufficiently reliable for our purposes. To estimate the cost of operating and maintaining VA's underutilized and vacant property, we conducted an independent cost estimate because VA did not provide its own estimate for such operating costs at the time of our work (further information is contained in app. II). To determine the extent to which VA enters into agreements to reduce underutilized and vacant

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<sup>2</sup>For the purposes of this report, the term "station" refers to a VA medical center, Veterans Benefit Administration office, national cemetery, or staff office. Stations can be composed of multiple buildings.

<sup>3</sup>Fiscal year 2005 represented the first year all data elements were fully collected in the Capital Asset Management System.

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property, we collected and analyzed data from the Capital Asset Management System on the number of agreements VA entered into—such as EULs, sharing agreements, and outleases—for fiscal years 2005 through 2007. In addition, we visited and conducted interviews at locations where these agreements were entered into to understand the benefits VA has received from them and their impact on property management. Finally, to identify the challenges VA faces when minimizing its underutilized and vacant property, we spoke to VA headquarters officials to obtain their views on these challenges and any improvements that could help VA better utilize its property. We visited locations where VA encountered challenges minimizing underutilized and vacant property at its facilities and identified strategies for mitigating these challenges. We also spoke with stakeholders, such as veterans service organizations and lessees, interested in VA's decisions about property. We conducted site visits at eight VA medical facilities including Dayton, Ohio; Fort Howard, Maryland; Los Angeles, California; Marion, Indiana; Milwaukee, Wisconsin; North Chicago, Illinois; Perry Point, Maryland; and North Hills (Sepulveda), California. We selected this nonprobability sample of sites to obtain a range of examples of VA's experiences with various real property authorities; the amount of, or changes in, underutilized and vacant property; and geographic dispersion. We also toured a Veterans Benefits Administration (VBA) facility in Milwaukee, Wisconsin, and a national cemetery in Alexandria, Virginia. While we attempted to select varied locations, our sample cannot be statistically projected to VA as a whole.

We conducted this performance audit from July 2007 through September 2008 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. Appendix I provides more detail on our objectives, scope, and methodology.

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## Results in Brief

From fiscal year 2005 through 2007, VA made significant progress in reducing underutilized space (space not used to full capacity) in its buildings from 15.4 million square feet to 5.6 million square feet. Although the number of vacant buildings decreased during this period, the amount of vacant space remained relatively unchanged, and the total cost of maintaining underutilized and vacant space is substantial. The 5.6 million square feet of underutilized space accounted for less than 4 percent of VA's total square feet in fiscal year 2007. Vacant space, which totaled



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approximately 7.3 million square feet in fiscal year 2007, accounted for 5 percent of VA's total square feet in all 3 fiscal years. We estimate that VA spent \$175 million operating and maintaining underutilized and vacant space at its medical facilities in fiscal year 2007; 98 percent of underutilized and vacant space were at these facilities. We developed this estimate because VA does not track the cost of operating and maintaining underutilized and vacant VA space at the building level and has not developed a reliable method for estimating these costs. Without a reliable cost estimate on operating and maintaining vacant and underutilized property, VA cannot account for the amount it spends each year on space that provides little or no benefit to veterans and taxpayers, some of which could be used to provide healthcare or other services. We are recommending that VA develop an annual cost estimate for how much it spends on underutilized and vacant property and that such estimates be factored into its portfolio property practices.

While VA's use of various legal authorities, such as EULs and sharing agreements, likely contributed to VA's overall reduction of underutilized space since fiscal year 2005, VA does not track the overall effect of the uses of these authorities on space reductions. VA has used its authorities to enter into various types of agreements to reduce underutilized space, but it does not uniformly track information, such as the amount of square footage reduced, that would help gauge the impact of such authorities at the building level. VA officials we spoke with during the course of the audit acknowledge that the ability to track this type of information at the building level is desirable. The lack of such information precludes VA from knowing what effect these authorities are having on reducing underutilized or vacant space or knowing which types of authorities have the greatest effect. The use of these authorities, which have remained relatively constant in number at around 475 since fiscal year 2005, generates revenue and provides services for veterans, such as homeless housing, drug rehabilitation, and childcare. In Chicago, for example, VA leased vacant land in 2005 to a local hospital in exchange for \$28 million; VA then used the funds to augment healthcare services for veterans at other locations in the Chicago area. As with information on reducing underutilized and vacant property, VA does not formally track and evaluate information related to such benefits at the building level, again leaving itself unable to determine what effect the authorities are having. We are recommending that VA track, monitor, and evaluate square footage reductions and financial and nonfinancial benefits resulting from new agreements at the building level by fiscal year in order to provide itself a better understanding of the utility of these authorities and the overall

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effect they are having on underutilized and vacant property from year to year.

VA faces several ongoing challenges—some of which include building location, high building repair costs, and competing stakeholder interests—to reducing underutilized and vacant property, but is using several strategies in some locations to mitigate these challenges. Officials reported difficulty finding entities interested in using their underutilized or vacant property located in areas with low property values. In addition, many of VA’s vacant or underutilized buildings are in poor condition and require costly repairs and renovations before they can be utilized fully by VA or others. Fifty-six percent of the buildings that VA determined were in “poor” or “critical” condition at the end of fiscal year 2007 were underutilized or vacant properties; VA estimated the repair costs for these properties to be approximately \$3 billion. Moreover, 66 percent of VA’s underutilized and vacant buildings are historic properties or eligible for historic designation, therefore requiring more effort for disposal. Disposal options, such as demolition, can be an expensive alternative, often because of required remediation for asbestos and other environmental problems. VA also cited competing stakeholder interests, such as communities or veteran groups that want to limit development in their community, as barriers to disposing of underutilized or vacant property. For example, in some locations such as West Los Angeles and Milwaukee, veterans’ groups have opposed arrangements that did not result in building uses that provide benefits exclusively for veterans. Finally, legal restrictions—such as statutory limits on the length of certain authorities—and administrative and budgetary disincentives associated with some of VA’s available authorities can further affect VA’s ability to enter into agreements. To address such challenges, individual VA locations have used various strategies, including communicating with external stakeholders, obtaining support from internal stakeholders, and entering into public-private partnerships. Federal agencies have other tools available for the disposal of unneeded federal properties, including the public benefits conveyance program administered by the General Services Administration (GSA). This program allows agencies to convey surplus properties to state governments, local governments, or nonprofit organizations for public uses, such as homeless centers, educational facilities, and public parks.

We provided a draft of this report to VA for review and comment. In written comments, VA concurred with two of our three recommendations. Specifically, it concurred with our two recommendations that VA develop an annual cost estimate of spending on VA’s underutilized and vacant

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property and track, monitor, and evaluate square footage reductions and financial and nonfinancial benefits when recording new agreements. However, VA did not concur with our recommendation that the agency collect and maintain building-level data by fiscal year in order to correlate characteristics associated with underutilized and vacant buildings, which may help to identify unneeded assets. VA stated that it collects and analyzes a significant amount of data at the station and building level, that it is in compliance with reporting requirements established at the Federal Real Property Council, and that it uses performance measures to identify unneeded assets that may be candidates for disposal. Although we agree that VA collects a significant amount of data at the station and building level, we do not agree that this information is sufficient to correlate characteristics with VA's underutilized and vacant buildings and therefore believe our recommendation remains valid. In addition, VA's written comments highlighted five areas of disagreement with our report, which we address on p. 43 of this report. First, VA said that our report double-counted vacant space. In response to this comment, we subtracted the double-counted space and we now report that VA had 5.6 million square feet of underutilized building space in fiscal year 2007. Second, VA said that we overstated unit costs for operations and maintenance of underutilized space. We revised this estimate after learning that our original estimate had double-counted the costs for vacant space. Third, VA said it does have valid cost information from which to make sound and prudent decisions and provided examples to support its position. We acknowledge that VA maintains certain information important for such decision making but believe it needs to maintain more comprehensive building-level information by fiscal year in order to determine the operations and maintenance costs of underutilized space. Fourth, VA stated that our report did not acknowledge VA's efforts to designate properties for disposal based on mission dependency, utilization, and cost. While we acknowledge VA has taken several steps such as using performance measures to identify assets that may be candidates for disposal, VA has not estimated the costs of many of the disposals on its list, the disposals have not been funded, and the agency's disposal plans are not prioritized. Finally, VA said that it does track revenue generated, square footage reductions, and services received through agreements; however, this is not accomplished systematically. While our report generally reflects these facts, we added some additional information to the report to clarify that VA does track some information on agreements, and VA concurred with our related recommendation to track, monitor, and evaluate square footage reductions and financial and nonfinancial benefits when recording new agreements, as of fiscal year 2008, as noted earlier.

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VA also provided technical comments, which we incorporated, where appropriate.

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## Background

VA is comprised of three administrations: VHA, VBA, and the National Cemetery Administration (NCA). Additionally, seven staff offices and 12 staff organizations<sup>4</sup> provide specific assistance to the Secretary of VA. Each administration has a network<sup>5</sup> of regional facilities, which provides diverse program services to veterans and their families including, among others, healthcare-related services.

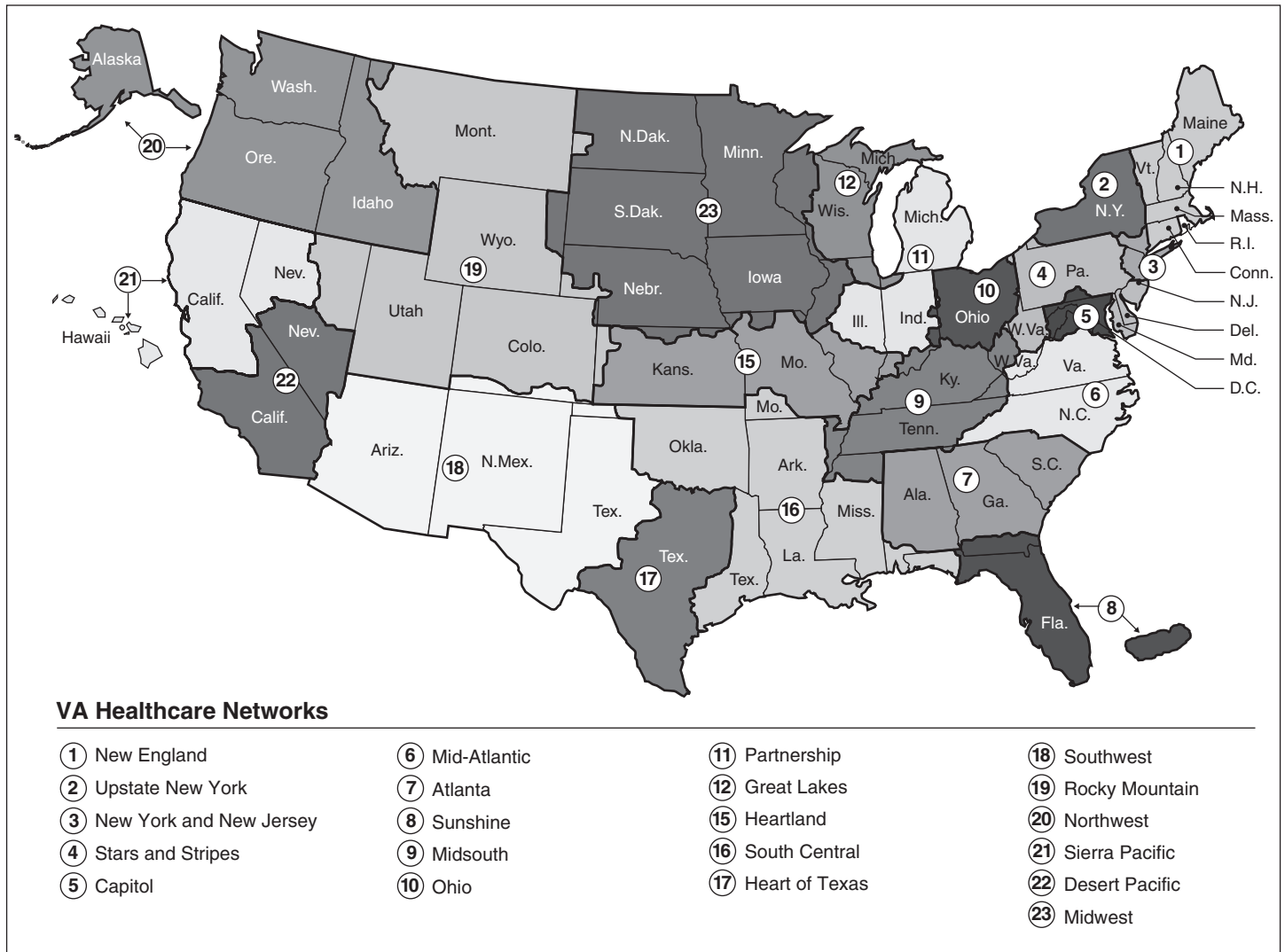
VHA operates the majority of VA's capital assets, and is primarily responsible for VA's healthcare delivery to the veterans enrolled for VA healthcare services. In 2007, VA served 5.6 million patients. In addition, VHA operates the nation's largest integrated healthcare system which includes 155 hospitals, 881 outpatient clinics, 135 nursing homes, 46 residential rehabilitation treatment programs, and 207 readjustment counseling centers totaling a combined 144.6 million square feet. Within VHA, the management of facilities is decentralized to 21 networks (see fig. 1).

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<sup>4</sup>VA's staff offices include the Office of Public and Intergovernmental Affairs; Office of Management; Office of Information and Technology; Office of Human Resources and Administration; Office of Operations, Security and Preparedness; Office of Policy and Planning; and the Office of Congressional and Legislative Affairs. VA's staff organizations include the Board of Veterans' Appeals, Office of General Counsel, Inspector General, Veterans Service Organizations Liaison, Center for Minority Veterans, Center for Women Veterans, Employment Discrimination Complaint Adjudication, Office of Regulation Policy and Management, Small and Disadvantaged Business Utilization, Center for Veterans Enterprise, Center for Faith-Based and Community Initiatives, and Office of Construction and Facilities Management.

<sup>5</sup>A network is a group of facilities located in the same geographic area of the country.

**Figure 1: Map of VA's Healthcare Networks**



Sources: U.S. Department of Veterans Affairs; MapArt (map); and GAO.

Note: In 2002, networks 13 and 14 were merged to create network 23.

VBA is responsible for administering the VA's programs that provide financial and other forms of assistance to veterans, their dependents, and survivors. These programs include veterans' compensation, veterans' pension, survivors' benefits, rehabilitation and employment assistance, and education assistance. VBA has 57 regional offices and operates and manages 4.3 million square feet of property.

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NCA is responsible for providing burial space for veterans and their eligible family members, maintaining national cemeteries, and administering grants for establishing or expanding state veterans' cemeteries. NCA operates and manages 972,000 square feet of building space and 17,000 acres at 125 national cemeteries and 33 soldiers' lots in the United States and its territories.

Since the mid 1990s, VA's healthcare system has undergone a substantial transformation, shifting from predominately hospital-based inpatient care to primary reliance on outpatient care, which has changed its requirements for facilities to treat veterans. VA has taken steps to manage its underutilized and vacant property as a result of this transformation. For example, in 2007 we reported that VA had established 3-year timelines for meeting strategic goals identified in its asset management plans and had provided evidence that it was (1) implementing these plans; (2) using real property inventory information and performance measures in decision making; and (3) managing its real property in accordance with its strategic plan, asset management plan, and performance measures.<sup>6</sup>To monitor progress in meeting its strategic goals, VA's portfolio goals include decreasing underutilized space as a key performance measure. We also previously reported that VA had expanded its sharing agreements to include joint ventures with the Department of Defense to construct or share medical facilities. Congress and the administration have encouraged VA to look for more opportunities for joint ventures as a means of avoiding costs by maximizing available resources to build a new facility or to jointly use a facility.<sup>7</sup>

VA has a variety of legal authorities available, such as EULs and sharing agreements, and others, to help it manage real property (see table 1 for types of available authorities).

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<sup>6</sup>GAO-07-349.

<sup>7</sup>GAO, *VA Health Care: Additional Efforts to Better Assess Joint Ventures Needed*, GAO-08-399 (Washington, D.C.: Mar. 28, 2008).

**Table 1: Major Types of Authorities Available to VA**

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

Source: GAO.

When disposing of unneeded property, VA must comply with numerous laws and regulations. For example, the Stewart B. McKinney Homeless Assistance Act (McKinney-Vento Act), as amended, provides that property identified by agencies as unnecessary for mission requirements must first be made available to assist the homeless.<sup>8</sup> In addition, the National

<sup>8</sup>42 U.S.C. § 11411. VA properties that are leased to another party under an EUL are not considered to be unutilized or underutilized for purposes of the McKinney-Vento Act.

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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.<sup>9</sup>

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## VA Reduced Underutilized Space by Nearly Two-thirds, but Vacant Space Remained Relatively Unchanged, and the Cost of Operating and Maintaining These Types of Space Is Substantial

VA has made significant progress reducing underutilized space in its buildings by nearly two-thirds from fiscal year 2005 through 2007. However, vacant space remained relatively unchanged, although the number of vacant buildings decreased. The total cost of operating and maintaining underutilized and vacant space is substantial. Nearly all underutilized space and vacant space was at VHA facilities. VA does not track operations and maintenance costs on a building-by-building basis and therefore does not have a reliable cost estimate for what it spends on underutilized and vacant space. We estimate that VA spent \$175 million in fiscal year 2007 operating and maintaining underutilized and vacant space at VHA facilities. Furthermore, because VA does not maintain building-level data, we were unable to determine trends related to the reductions in underutilized space at the building level during fiscal years 2005 through 2007. The absence of building-level data prior to fiscal year 2006 prevented VA from running certain trend analyses, including the correlations, if any, between utilization and building location, condition, and age—information that can be beneficial in identifying assets for disposal.

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## VA Reduced Its Underutilized Space by Nearly Two-thirds since Fiscal Year 2005

VA reduced underutilized space in its buildings by approximately 64 percent from 15.4 million square feet in fiscal year 2005 to 5.6 million square feet in fiscal year 2007.<sup>10</sup> Further demonstrating VA's progress, underutilized space accounted for approximately 10 percent of VA's total gross square feet in fiscal year 2005; by fiscal year 2007 it accounted for less than 4 percent. Ninety-eight percent of VA's underutilized space is at facilities operated by VHA.<sup>11</sup>

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<sup>9</sup>16 U.S.C. § 470 et seq.

<sup>10</sup>The underutilized square footage numbers we are reporting are different from the utilization numbers that VA reports. Our analysis only included underutilized square feet, whereas when VA measures its rate of utilization, it adds together underutilized square feet and overutilized square feet (additional square feet needed at a facility).

<sup>11</sup>VHA's underutilized space made up 98 percent of VA's total underutilized space in fiscal years 2006 and 2007, and made up 99 percent in fiscal year 2005.



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**Table 2: VA’s Underutilized Square Feet and Number of Buildings with Underutilized Square Feet, Fiscal Years 2005–2007**

Fiscal year	Underutilized square feet	Underutilized buildings
2005	15,374,292	Not available
2006	9,795,006	2,513
2007	5,591,257	2,381

Source: GAO analysis of data provided by VA.

While we were able to identify changes in underutilized space at the station level,<sup>12</sup> we were unable to determine trends relating to the reductions in underutilized space at the building level during fiscal years 2005 through 2007.<sup>13</sup> The absence of building-level data prior to fiscal year 2006 prevented VA from running certain trend analyses, including the correlations, if any, between utilization and building location, condition, and age. VA does not analyze such correlations, according to a VA official, because it does not have the staff or time. However, such analyses at the building level can be very beneficial when identifying assets for disposal. According to the Office of Management and Budget (OMB), prioritizing assets based on their importance to mission is one of the most significant criteria used in both focusing reinvestment funds and finding candidates for disposition. As OMB noted in its *Capital Programming Guide*,<sup>14</sup> correlating an asset’s importance to an agency’s mission and another characteristic, such as an asset’s condition, can help agencies identify which assets are acceptable and unacceptable. Because VA uses utilization to determine an asset’s importance to its mission, it is critical to know how this information corresponds to other characteristics that may help identify unneeded assets.

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<sup>12</sup>Station” refers to a VA medical center, VBA office, national cemetery, or staff office. Stations can be composed of multiple buildings.

<sup>13</sup>According to the VA official responsible for data management, building-level data for fiscal years prior to 2006 were unavailable because VA overwrote the data in its Capital Asset Inventory database. VA began archiving the data in fiscal year 2006 by taking snapshots of the data, but because these were taken at different points in time, data from fiscal years 2006 and 2007 are not comparable for purposes of our analysis.

<sup>14</sup>OMB, *Capital Programming Guide: Supplement to Circular A-11, Part 7, Planning, Budgeting, and Acquisition of Capital Assets* (Washington, D.C., Executive Office of the President, June 2006).

Our analysis of VA’s fiscal year 2007 data indicated that the greatest number of buildings with underutilized space were in the categories of “service,” “office,” and “warehouse.” Together these three categories accounted for 50 percent of the buildings with underutilized space. These same three categories also had the greatest percentage of underutilized buildings. Figure 2 depicts the amount of underutilized square feet by building usage type.

**Figure 2: Underutilized and Vacant Square Feet by Usage Type, Fiscal Year 2007**

Usage type	Total square footage	Utilization	Usage type	Total square footage	Utilization
Hospital	90,356,019	 <ul style="list-style-type: none"> <li>■ 1% Vacant</li> <li>■ 8% Underutilized</li> <li>□ 91% Fully utilized</li> </ul>	Housing	3,899,666	 <ul style="list-style-type: none"> <li>■ 20% Vacant</li> <li>■ 7% Underutilized</li> <li>□ 74% Fully utilized</li> </ul>
Other Institutional Uses	20,113,459	 <ul style="list-style-type: none"> <li>■ 2% Vacant</li> <li>■ 11% Underutilized</li> <li>□ 87% Fully utilized</li> </ul>	Industrial	1,779,052	 <ul style="list-style-type: none"> <li>■ &lt;1% Vacant</li> <li>■ 14% Underutilized</li> <li>□ 86% Fully utilized</li> </ul>
Office	12,260,419	 <ul style="list-style-type: none"> <li>■ 6% Vacant</li> <li>■ 19% Underutilized</li> <li>□ 75% Fully utilized</li> </ul>	School	877,677	 <ul style="list-style-type: none"> <li>■ 21% Vacant</li> <li>■ 5% Underutilized</li> <li>□ 74% Fully utilized</li> </ul>
All Other	7,790,018	 <ul style="list-style-type: none"> <li>■ 22% Vacant</li> <li>■ 18% Underutilized</li> <li>□ 59% Fully utilized</li> </ul>	Dormitories/Barracks	440,934	 <ul style="list-style-type: none"> <li>■ 22% Vacant</li> <li>■ 8% Underutilized</li> <li>□ 70% Fully utilized</li> </ul>
Service	6,334,876	 <ul style="list-style-type: none"> <li>■ 2% Vacant</li> <li>■ 26% Underutilized</li> <li>□ 73% Fully utilized</li> </ul>	Post Office	15,055	 <ul style="list-style-type: none"> <li>■ 0% Vacant</li> <li>■ 28% Underutilized</li> <li>□ 72% Fully utilized</li> </ul>
Warehouses (Storage/Sheds)	5,316,358	 <ul style="list-style-type: none"> <li>■ 6% Vacant</li> <li>■ 16% Underutilized</li> <li>□ 78% Fully utilized</li> </ul>	Communication Systems	2,700	 <ul style="list-style-type: none"> <li>■ 0% Vacant</li> <li>■ 14% Underutilized</li> <li>□ 86% Fully utilized</li> </ul>
Laboratories	3,985,763	 <ul style="list-style-type: none"> <li>■ 1% Vacant</li> <li>■ 16% Underutilized</li> <li>□ 83% Fully utilized</li> </ul>			

Source: GAO analysis of VA data.

Note: Percentages may not add to 100 percent due to rounding.

VA’s underutilized buildings generally are older than the other buildings in its portfolio, in poor condition, and no longer useful in fulfilling VA’s mission. For example, in fiscal year 2007, 68 percent of VA’s underutilized buildings were aged 51 years or older compared to 57 percent of utilized

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buildings.<sup>15</sup> As of fiscal year 2007, 97 percent of underutilized buildings assessed had a component deemed to be in “poor” or “critical” condition.<sup>16</sup>

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### Vacant Space Has Remained Relatively Unchanged since Fiscal Year 2005

Our analysis showed that the number of VA’s vacant buildings decreased from fiscal year 2006 to 2007; however, the amount of vacant square feet changed little from fiscal years 2005 through 2007. During this time period, VA retained approximately 7.5 million square feet of vacant space, which accounted for about 5 percent of its total gross square feet.<sup>17</sup> According to VA’s station-level data, all vacant square feet were at VHA-operated facilities.<sup>18</sup>

**Table 3: VA’s Vacant Square Feet and Number of Vacant Buildings, Fiscal Years 2005–2007**

Fiscal year	Vacant square feet	Vacant buildings
2005	7,367,340	Not Available
2006	7,635,489	684
2007	7,297,407	482

Source: GAO analysis of data provided by VA.

As with underutilized space, trends relating to changes in vacant space at the building level could not be determined because of the absence of data prior to fiscal year 2006. Additionally, snapshots from fiscal years 2006 and

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<sup>15</sup>This analysis is based on 5,061 buildings that had age data available. VA does not know the age of 1,151 of its buildings. According to VA officials, VA does not maintain detailed information for small miscellaneous buildings, such as sheds, which could account for the lack of age data.

<sup>16</sup>VA assesses the condition of its buildings’ structure and systems (for example, structural, mechanical, and plumbing) to estimate remaining useful life and identify buildings that need immediate attention. Each facility is rated on an A to F grade scale. Buildings rated “D” are considered to be in “poor” condition, and buildings receiving a rating of “F” are in “critical” condition. The buildings are assessed in a 3-year cycle; approximately one-third are assessed each year.

<sup>17</sup>There was a small increase in vacant space from fiscal year 2005 through 2006 as a result of consolidating services at medical centers in Biloxi/Gulfport, Mississippi; Lexington, Kentucky; and Murfreesboro, Tennessee.

<sup>18</sup>During the course of our work we learned NCA had vacant space at its cemetery lodges, but did not report it to VA’s central office. According to our analysis, NCA had 9 vacant buildings totaling 10,459 square feet in fiscal year 2007 as compared to VHA’s 473 vacant buildings totaling 7,297,407 square feet. NCA is now entering vacant space information in VA’s database, according to VA officials.

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2007 were not comparable. Our analysis of VA's fiscal year 2007 data indicated that the greatest number of buildings with vacant space were in the categories of "housing" and "all other."<sup>19</sup> Together, these two categories accounted for 63 percent of VA's vacant buildings that year.

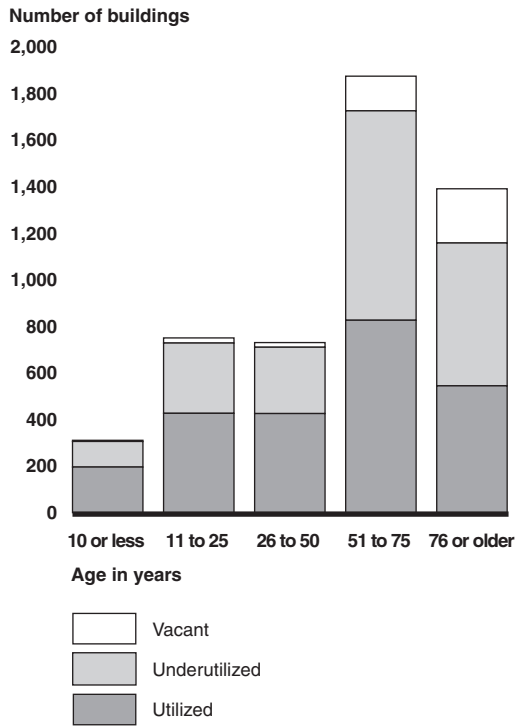
Similar to underutilized buildings, vacant buildings were generally older and in poor condition. Eighty-nine percent of VA's vacant buildings were aged 51 years or older and just over half were over 75 years old<sup>20</sup> (see fig. 3). As of fiscal year 2007, 99 percent of VA's vacant buildings had a component deemed to be in "poor" or "critical" condition.

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<sup>19</sup>Although VA's database did not contain information on the number of vacant square feet at the building level, we identified this information based on our own analysis of the data.

<sup>20</sup>This analysis is based on 5,061 buildings that had age data available. As previously noted, VA does not know the age of 1,151 of its buildings.

**Figure 3: Age of VA's Buildings with Utilized, Underutilized, and Vacant Space, Fiscal Year 2007**



Source: GAO analysis of VA data.

In addition to identifying vacant and underutilized space in its buildings, VA identifies the amount of land it has available for reuse by another entity. As with vacant building space, most available acres are located at VHA facilities. In fiscal year 2007, VHA had 2,716 available acres, an increase from 2,356 acres in fiscal year 2005.<sup>21</sup> Over 90 percent of VA's stations had less than 25 available acres, while 11 of VA's 392 stations had more than 51 available acres.

<sup>21</sup>In 2007, VA identified 20 NCA sites with more than 100 undeveloped acres. However, NCA intends to use these sites for future burials, with the exception of 54 acres in the Dallas/Ft. Worth, Texas, area.

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## VA Does Not Estimate the Annual Cost to Operate and Maintain Underutilized and Vacant VHA Space

VA does not track operations and maintenance costs, including building repair and utilities, on a building-by-building basis and therefore does not calculate what it is spending to operate and maintain underutilized and vacant properties.<sup>22</sup> VA's cost estimating service, within the Office of Construction and Facilities Management, developed a pricing guide that contains estimates of operating costs per square foot for various levels of occupancy (including vacant space). Specifically, the VA pricing guide includes costs associated with electricity, water, gas, sewage, major systems maintenance, building shell maintenance,<sup>23</sup> janitorial services, and security. However, the estimates did not meet the best practices we identified in our July 2007 report as the basis of effective program cost estimating.<sup>24</sup> Additionally, there is no formal policy across VA on how to develop cost estimates for operating and maintaining underutilized and vacant property at the building level. For example, the medical facilities we visited either had their own process to develop annual cost estimates for underutilized and vacant space or did not know what they were spending to operate this type of space.

A reliable cost estimate is critical for informed investment decision making, realistic budget formulation and program resourcing, meaningful progress measurement, proactive course correction when warranted, and accountability for results. Our past research on this issue, which we summarized in our July 2007 report, identified best practices for effective program cost estimating, which can be grouped into four main characteristics—comprehensive, well-documented, accurate, and credible (see table 4). VA's current approach does not meet best practices for any of the four characteristics. For example, the VA pricing guide cannot be used to produce a fully comprehensive cost estimate because it does not include such pertinent costs as property management and grounds maintenance. Appendix II discusses our comparison of the VA pricing guide and industry best practices in more detail.

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<sup>22</sup>VA does track operations and maintenance costs at the station level. VA is implementing a pilot program to meter its buildings so that it can track utility usage at the building level. According to VA officials, there are no criteria for operating and maintaining vacant buildings; each medical center relies on its own judgment to determine requirements. Locations we visited reported making judgments on utility use and maintenance based on the perceived future use of the building.

<sup>23</sup>Shell maintenance includes tuck pointing (i.e., the replacement of mortar), roof repair, and window replacement.

<sup>24</sup>GAO, *Cost Assessment Guide: Best Practices for Estimating and Managing Program Costs—Exposure Draft*, [GAO-07-1134SP](#) (Washington, D.C.: July 2007).

**Table 4: Comparison of Cost Estimating Best Practices and VA's Current Approach**

<b>Best practice area</b>	<b>Examples of standards</b>	<b>Examples of our findings on VA's current approach</b>
Comprehensive	Include both government and contractor costs over program's full life cycle	VA pricing guide does not include all potential operations and support costs or disclose some key assumptions, such as labor rates or inflation indexes
Well-documented	Estimates should be supported by documented descriptions and captured in such a way that the data used can be traced back to and verified against sources	Calculations and methodologies for deriving cost estimates in VA pricing guide are not documented Cost estimates in VA pricing guide are not traced back to source data
Accurate	Estimates should provide unbiased results and be grounded in documented assumptions and a historical record of cost estimating and actual experiences on other comparable programs	VA pricing guide omits pertinent costs associated with general property management and grounds maintenance, and contains inconsistencies in how other costs were calculated
Credible	Limitations in the analysis should be disclosed, and estimates should be cross-checked using other methods and comparisons with independent cost estimates	Cost estimates in VA pricing guide are not subject to sensitivity or risk analysis Cost estimates are not cross-checked using independent estimates

Source: GAO.

## We Estimate VA Spent \$175 Million in Fiscal Year 2007 to Operate and Maintain Underutilized and Vacant VHA Space

Because VA does not have a reliable cost estimate for what it is spending to operate and maintain underutilized and vacant space, we conducted an independent analysis that yielded a cost estimate of \$175 million to operate and maintain underutilized and vacant VHA facilities in fiscal year 2007. We developed this estimate using cost model data provided by the Whitestone Building Operations Cost Reference—a published document reflecting industry standards. We also were able to model the cost uncertainty (statistical bounds) of our estimate, which enabled us to understand the potential variability of our cost estimate should the facts, circumstances, and assumptions change. Our sensitivity and risk analyses indicated that this estimate could vary from \$175 million to \$185 million at the 50 percent and 70 percent confidence levels, respectively.<sup>25</sup> Performing

<sup>25</sup>An uncertainty analysis provides decision makers with a perspective on the potential variability of the estimate should the facts, circumstances, and assumptions change. By examining the effects of varying the estimate elements, a degree of uncertainty about the estimate can be expressed, possibly as an estimated range or qualified by some factor of confidence. The 50 percent confidence level, \$175 million in the case of our estimate, is the median and therefore the most likely outcome. The 70 percent confidence level is provided to offset the risk of underestimating. The \$175 million estimate represents an assumption that VA's data on underutilized square footage are correct; however, we have some concerns about the accuracy of those numbers. VA is conducting an audit of its data systems, the outcome of which could affect our estimate. See app. II for more information.

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an uncertainty analysis enabled us to quantify the risk and uncertainty associated with our cost estimate and allowed us to provide a level of confidence for our cost estimate by providing us with a statistical perspective on the potential variability within it. Appendix II explains in more detail our estimating approach and results.

By not following practices associated with developing reliable cost estimates, VA does not have valid cost information from which to make sound and prudent decisions. Furthermore, the lack of a reliable cost estimate results in VA not knowing how much it spends each year on space that provides little or no benefit to veterans or taxpayers. As we have previously reported,<sup>26</sup> unneeded assets present significant potential risks to federal agencies not only for lost dollars because such properties are costly to maintain, but also for lost opportunities because the properties could be put to more cost-beneficial uses, exchanged for other needed property, or sold to generate revenue for the government. In addition, continuing to hold real property that no longer may be needed does not present a positive image of the federal government in local communities. Instead, it can present an image of waste and inefficiency that erodes taxpayers' confidence and can negatively impact local economies if the property is occupying a valuable location and is not used for other purposes, sold, or used in a public-private partnership if such a partnership provides the best economic value for the government. According to VA, the agency is developing requirements for a real property cost accounting system that will track costs at the building level.

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<sup>26</sup>See GAO, *Federal Real Property: Vacant and Underutilized Properties at GSA, VA, and USPS*, [GAO-03-747](#) (Washington, D.C.: Aug. 19, 2003).



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## VA Does Not Track the Extent to Which Various Authorities Contribute to the Overall Reduction in Underutilized Property

VA's use of various legal authorities, such as EULs and sharing agreements, likely contributed to VA's overall reduction of underutilized space since fiscal year 2005, but VA does not track the overall effect of these authorities on space reductions and therefore does not know what effect they are having.<sup>27</sup> VA does not systematically track information, such as the amount of square footage involved in each agreement, and therefore does not know the cumulative effect of its authorities on underutilized and vacant property square footage. VA's use of these authorities, which have remained relatively constant in number at around 475 since fiscal year 2005, generates revenue and provides services for veterans, including homeless housing, substance abuse treatment, and childcare. Although VA derives benefits from using its authorities, it does not formally track and evaluate information related to their overall effect on veterans' care or operations. VA continues to explore possibilities for using EULs and has efforts underway to further reduce underutilized and vacant property.

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## VA Uses Various Authorities to Reduce Underutilized and Vacant Property but Does Not Know the Full Extent of Their Effect

VA has used its legal authorities, such as EULs, sharing agreements, and outleases,<sup>28</sup> to reduce underutilized and vacant property but is not aware of the full extent of their effect.<sup>29</sup> In fiscal year 2007, VA reported having approximately 46 EULs, 185 sharing agreements, and 250 outleases. VA reported similar numbers for its authorities in the 2 previous fiscal years.

According to VA officials, using these authorities often contributes to reductions in VA's underutilized and vacant property. For example:

- In 2005, in Lakeside (Chicago), Illinois, VA reduced its underutilized property at the medical center by nearly 600,000 square feet by using its

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<sup>27</sup>At some of the locations we visited, VA officials identified other factors that may have contributed to changes in its underutilized and vacant space, including consolidation of services, reconfiguring space, increased workloads, and reclassification of certain space types. For example, VA's efforts to consolidate healthcare services could result in reductions in underutilized space but increases in vacant space. Because these factors were outside of the scope of our work, we did not evaluate the extent to which they contributed to reductions in underutilized and vacant property.

<sup>28</sup>VA includes permits and licenses within its outlease category in the Capital Asset Management System.

<sup>29</sup>VA has other authorities available but uses them to a far lesser extent, if at all. For example, VA has the authority to: transfer property and deposit the proceeds in a Capital Asset Fund until 2011 (38 U.S.C. § 8118); transfer any interest in real property to a state for use as a state nursing home or domiciliary (38 U.S.C. § 8122); or transfer the real property to GSA for disposal (38 U.S.C. § 8122).

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EUL authority with Northwestern Memorial Hospital. This EUL involved a consolidation of existing services where VA relocated inpatient beds and support services to other campus sites and leased the property to Northwestern, therefore reducing VA's underutilized property at the medical center.

- In 2006, at Fort Howard, Maryland, VA entered into an EUL that will use approximately 297,613 square feet of vacant space to develop a retirement community, with priority placement for veterans. While VA has retained a portion of space on its medical campus for an outpatient clinic, it has largely reduced the vast majority of its total space at Fort Howard through the EUL.
- The medical center in Milwaukee, Wisconsin, has several sharing agreements in place, including one with the Milwaukee Housing Authority, which is using a formerly vacant 10,635 square foot VA building to provide housing for the homeless where veterans are given priority (see fig. 4).

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**Figure 4: Old Quarters Now Used to Provide Homeless Housing at Milwaukee Medical Center**



Source: GAO.

- In 2005, in Leavenworth, Kansas, VA entered into an EUL that leased 38 vacant historic buildings located on 50 acres of land. According to VA, it will save approximately \$227,000 annually as a result of the EUL.

While VA has taken strides to reduce underutilized and vacant property through its various authorities, the cumulative effect of these authorities on reductions is largely unknown.<sup>30</sup> According to VA officials, the EUL authority is the primary contributing factor to reductions in vacant and underutilized property over the long term. VA has established capital asset portfolio goals to support its capital asset management initiative, which include decreasing underutilized capacity in its assets. However, VA does not track the overall impact of all agreements on reducing such space at

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<sup>30</sup>Our past work has shown that whether agreements are beneficial governmentwide is largely dependent on individual circumstances. We did not formally evaluate, verify, or validate the impact of these agreements or measure their overall effect.

the building level. VA's existing data systems limit the ability to compare new agreements, including EULs, in a way that identifies and distinguishes resulting reductions in underutilized and vacant property. Therefore, comprehensive information on square footage reductions that have occurred as a result of the implementation of certain agreements is not recorded at the building level.

VA also uses its EUL authority as a method to dispose of unneeded real property.<sup>31</sup> During the term of an EUL, if VA determines that the underlying land and buildings are no longer needed, VA is authorized to dispose of the property.<sup>32</sup> VA data show that in fiscal years 2005 through 2007, VA disposed of 91 buildings through EULs.<sup>33</sup> VA also can demolish, sell, donate, or dispose of property through GSA (see table 5).

**Table 5: Number of VA Buildings Disposed, by Method and Fiscal Year**

Fiscal year	Number of buildings			
	Disposed as part of EUL	Demolished	Sold or donated	Disposed through GSA
2005	38	35	1	3
2006	52	19	4	2
2007	1	44	0	1
<b>Total</b>	<b>91</b>	<b>98</b>	<b>5</b>	<b>6</b>

Source: GAO analysis of VA data.

**Use of Authorities Provides VA with Financial and Nonfinancial Benefits but Information on These Benefits Is Not Tracked**

Besides reducing underutilized or vacant property, VA benefits from using its various authorities in other ways. Generating revenue is one such benefit. For example:

- In January 2005, VA executed a 75-year EUL with Northwestern Memorial Hospital in Chicago, Illinois, for two parcels of land and, in turn, received \$28 million upon execution of the lease, as well as the right to lease back space for 3 years to house its existing outpatient clinic. In October 2005,

<sup>31</sup>According to VA officials, VA only disposes of property if it is a “win-win” situation, meaning that the disposal provides both a benefit to the veterans and is acceptable to the local community.

<sup>32</sup>38 U.S.C. § 8164.

<sup>33</sup>According to VA officials, VA plans to dispose of 436 buildings from fiscal year 2008 through fiscal year 2012; however, VA has not estimated the costs of these disposals and they have not yet been funded.

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VA determined that it did not need to retain this property over the long term and sold it outright to the lessee for an additional \$22 million, bringing the total amount received to \$50 million. VA officials reported that the transaction resulted in a demonstrable improvement of services to eligible veterans by permitting VA to use the proceeds of the lease and sale to help with implementation of VA's Capital Asset Realignment for Enhanced Services in Chicago and other locations, and avoid the future costs of operating aging healthcare facilities.

- The VA Greater Los Angeles Healthcare System enters into a number of sharing agreements with the film industry. According to VA officials, these agreements are typically temporary arrangements—sometimes lasting a few days—during which film production companies use VA facilities to shoot television or movie scenes. Figure 5 shows two examples of sites used. The second of these examples is a barrack built in the 1930s that otherwise sits vacant. According to VA officials, these agreements generate roughly \$1 million to \$2 million a year.

**Figure 5: Filming Sites at the Greater Los Angeles Healthcare System**



Outpatient clinic in Sepulveda, Calif.



Barrack in West Los Angeles, Calif.

Source: GAO.

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- VA's medical center in North Chicago shares space on one of its buildings for cell phone tower usage.<sup>34</sup> Sprint, VoiceStream, and AT&T are part of the sharing agreement, which provides VA with revenues of about \$40,000 annually. According to one senior VHA official, more than half of VHA's sharing agreements involve the use of cell phone towers.
  - In 2002, the North Chicago medical center entered into a 35-year EUL with a contractor to develop an energy center on 1.3 acres of what had been vacant land (see fig. 6).<sup>35</sup> The contractor produces and sells energy to the medical center. The medical center had been purchasing steam from the Navy at above-market rates. The energy center also saves VA \$4 million per year by selling energy to the Navy to heat its new barracks.

**Figure 6: Energy Center Located at North Chicago Medical Center**



Source: GAO.

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<sup>34</sup>VHA allows a company to place a cell phone tower on VA property in exchange for financial compensation.

<sup>35</sup>For more information on this EUL, see GAO, *Capital Financing: Partnerships and Energy Savings Performance Contracts Raise Budgeting and Monitoring Concerns*, [GAO-05-55](#) (Washington, D.C.: Dec. 16, 2004).

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In addition to revenue, such agreements can provide VA or veterans with a variety of services. For example:

- In Dayton, Ohio, the medical center entered into an EUL with Catholic Social Services to operate a childcare facility in VA space. Under the agreement, VA employees' children receive preferred placement in this facility. Catholic Social Services located the childcare center on VHA property because it was looking for a long-term lease that would allow Catholic Social Services to obtain a loan for building renovations.
- At the Greater Los Angeles Healthcare System, VA entered into a 50-year lease with New Directions, Inc., an organization that provides supportive housing and long-term substance abuse treatment to veterans. According to a New Directions official, the leased building New Directions now occupies had been vacant for 20 years. Benefits to VA, according to a New Directions official, include not having to pay maintenance costs for the leased building and land. Also, New Directions is able to provide service to veterans that VA had been unable to fulfill, such as job training and placement, as well as legal and financial assistance.

Although VA receives financial and nonfinancial benefits from certain agreements, and has a data system to record the revenue received, the information is not complete and therefore VA cannot systematically track and monitor related information to determine the authorities' effect. According to VA's data system, VA generated roughly \$8 million for all of its agreements in fiscal year 2007, mostly from sharing agreements and outleases; however, we found instances of missing agreement data that indicate that this dollar figure may actually be higher. For example, VA officials in West Los Angeles had not recorded in VA's data systems revenue the West Los Angeles and Sepulveda medical centers received as a result of several sharing agreements with the filming industry. According to those officials, the total amount of revenue VA received was between \$1 million and \$2 million per year. VA produces a comprehensive annual report for Congress that describes the financial and nonfinancial impacts of its EULs. For example, the report includes estimates of the amount of money VA saves on purchasing energy and parking and the value of new services available to veterans or VA employees as a result of EULs. However, the agency does not conduct a similar analysis for other types of agreements, which greatly outnumber the EULs, and VA's data systems do not provide information on the nonfinancial benefits it receives from those agreements. This lack of information means that VA cannot make year-to-year comparisons or determine which types of agreements provide the most benefits. This information would be helpful in measuring the utility

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of each of the agreements and ultimately the benefits VA receives in return. For example, VA could measure the impact of each of the authorities and the benefits each provides, including financial and nonfinancial benefits. VA officials we spoke with during the course of this audit acknowledge that the ability to track this type of information at the building level is desirable.

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### VA Continues to Explore New EULs to Further Reduce Underutilized and Vacant Property

VA continues to explore possibilities for using EULs and has efforts underway to further reduce underutilized and vacant property. For example, the Dayton medical center is proposing an EUL with Volunteers of America for a 50-bed transitional housing unit for the area's homeless male and female veterans. This building was constructed in 1937 for female veterans. According to VA officials, formulation of the lease is currently underway. In addition, in Albany, New York, VA has proposed an EUL for approximately 3 acres of land for a new 1,220-space parking garage with the Albany medical center. According to VA officials, as consideration for the lease, VA will receive free use of approximately 610 parking spaces in the garage and perhaps other negotiated considerations.

VA also is considering EULs for many of its stations with underutilized and vacant property. In 2007, VA's Office of Asset and Enterprise Management performed a site review initiative of each of its real property assets that included vacant land. The purpose of these reviews was to provide the Secretary with a list of the facilities VA believes are prime candidates for EULs. Recently, VA identified 15 sites for inclusion on the Secretary's EUL priority list for further action.

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### Ongoing Challenges Impede VA's Efforts to Minimize and Reduce Underutilized and Vacant Property, but Some Locations Have Taken Steps to Address These Challenges

VA faces several ongoing challenges to reducing underutilized and vacant property, including building location, high building repair costs, and competing stakeholder interests; however, VA is using several strategies in some locations to mitigate these challenges. VA officials reported challenges with finding organizations interested in using underutilized or vacant property located in areas with low property values. In addition, many of VA's vacant and underutilized buildings are in poor condition and require an estimated \$3 billion in repairs before they could be fully utilized by VA or others. Another complicating factor is that most VA buildings are eligible for historic designation. Challenges to reducing vacant and underutilized properties are further exacerbated by competing stakeholder interests. Moreover, legal restrictions and budgetary and administrative limitations can impede VA's ability to enter into agreements. Some VA locations have used strategies to address some of these challenges. In



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addition, federal agencies have other tools available for the disposal of federal properties, such as the public benefits conveyance program administered by GSA, which allows agencies to convey surplus properties to state governments, local governments, or nonprofit organizations for approved public benefit uses such as homeless centers, educational facilities, and public parks, at a discount of up to 100 percent fair market value.

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### Building Location, Condition, and Repair Costs Limit VA's Ability to Minimize Underutilized and Vacant Properties

Although some vacant and underutilized properties have potential for alternate uses, factors such as building location, condition, and associated repair costs limit VA's ability to reuse or dispose of them. Specifically, VA officials we interviewed at some of the sites we visited reported difficulties finding partners interested in using underutilized or vacant properties that are either considered not desirable or are located in areas with low property values or in markets with little or no demand for new space.

- According to VA officials we interviewed at the medical facility in Marion, Indiana, a combination of low property values, a weak market demand for property, and low financial development potential made it difficult for VA to find partners interested in leasing space. These conditions contributed to Marion retaining the greatest amount of both vacant and underutilized space in fiscal years 2005 through 2007. Additionally, VA did not have any outleases or sharing agreements in place for vacant or underutilized properties in Marion (see fig. 7).

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**Figure 7: Vacant Building in Marion, Indiana, Where Location Is a Challenge**



Source: GAO.

VA officials also cited difficulty finding alternate reuse options for properties that are not centrally located within a medical facility, or that lacked direct access to roads, making the properties difficult to use by VA and other entities. In fiscal year 2008, VA conducted a sample review of 15 stations that had been identified as having the most vacant space within VA and found that 37 percent of the vacant space lacked direct access to a public road.<sup>36</sup>

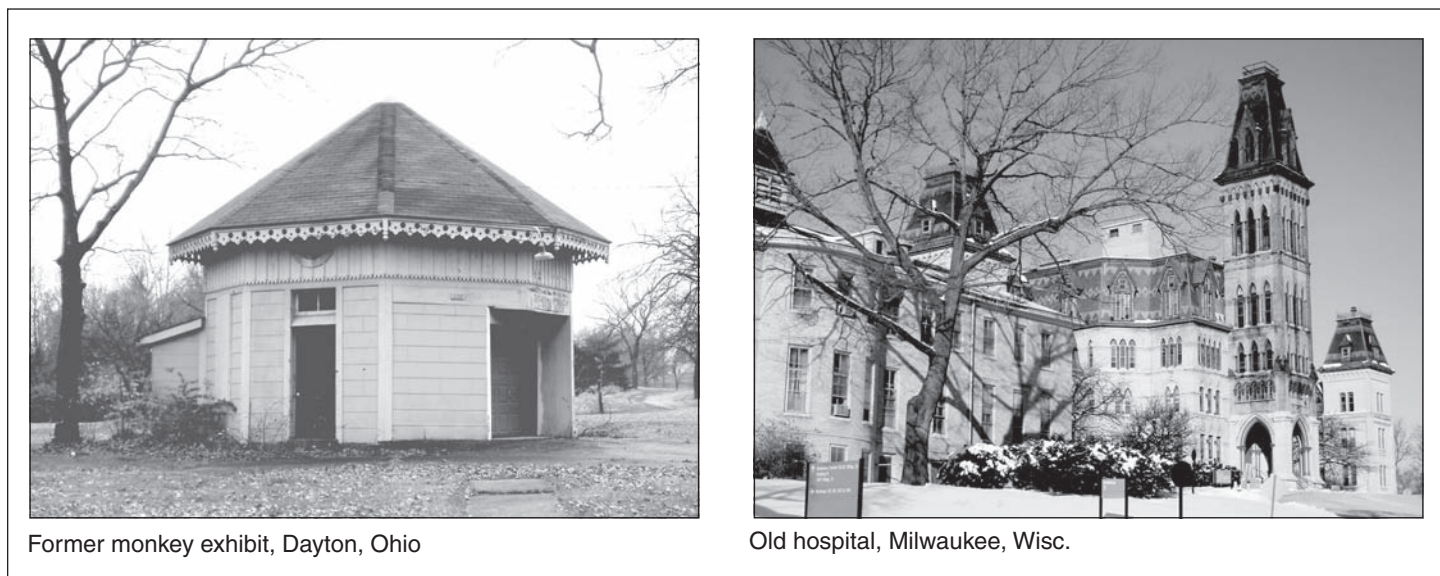
In addition, officials explained that some vacant and underutilized buildings, such as old medical in-patient facilities, cannot easily be

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<sup>36</sup>Stations reviewed included Northern Indiana Healthcare System (Marion Campus), Indiana; West Los Angeles, California; Tuskegee, Alabama; Milwaukee, Wisconsin; Montrose, New York; Sepulveda (North Hills), California; Hines, Illinois; Knoxville, Iowa; Waco, Texas; Dayton, Ohio; Augusta (Lenwood), Georgia; Lexington/Leestown, Kentucky; Marlin, Texas; Northport, New York; and Lyons, New Jersey; with a total of 4,101,038 vacant square feet, representing 57 percent of all VA vacant space.

converted to other uses, which contributed to VA's inability to reuse some of its properties. Some of the sites we visited illustrated these challenges. For example, in Milwaukee, Wisconsin, VA has a 139-year-old building, previously used as a domiciliary, which would require extensive upgrades to the electrical system to accommodate a modern computer network. Similarly, in Dayton, Ohio, VA has a building previously used as a monkey exhibit; the building currently is vacant and cannot easily be converted to other uses (see fig. 8).

**Figure 8: Vacant Buildings Difficult to Convert to Other Uses**



Source: GAO.

Many of VA's vacant or underutilized buildings are aging or in poor condition, requiring an estimated \$3 billion in repairs before they can be fully utilized by VA or others, an issue which has led to our designation of federal real property as high risk.<sup>37</sup> VA officials reported that VA faces challenges addressing the needs of aging and deteriorating buildings as a result of the high costs associated with repairs. VA conducts facility condition assessments at its facilities every 3 years on a rotating basis and identifies buildings in "poor" or "critical" condition, and subsequently estimates the useful and remaining life of those systems. Of the buildings

<sup>37</sup> GAO-03-122.

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that VA determined were in “poor” or “critical” condition at the end of fiscal year 2007, 56 percent were underutilized or vacant properties; VA estimated the repair costs for these properties to be approximately \$3 billion.<sup>38</sup> Twenty-nine percent of VA’s underutilized and vacant properties require repairs that cost a minimum of \$1 million per building; 7 percent required repairs costing more than \$5 million per building (see fig. 9).

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<sup>38</sup>This estimate is just for underutilized and vacant buildings. VA’s estimated repair cost for all buildings in “poor” or “critical” condition was \$6.5 billion.

**Figure 9: Deteriorating Vacant Buildings That Are Not Being Used by VA**



Deteriorating ceiling and wall, Dayton, Ohio



Signs of mold and asbestos on the wall of a vacant building, Marion, Ind.



Yellowed windows, asbestos on the wall, peeling paint, and floor panels breaking off, West Los Angeles, Calif.



Greenhouse roof is deteriorating and has several broken windows, Marion, Ind.

Source: GAO.



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Other factors that contribute to high repair costs, according to VA officials, include the cost of environmental cleanup associated with removing lead paint and asbestos contamination from some buildings. Federal agencies are required to assess and pay for needed environmental cleanup before renovating or disposing of property—a process that can require years of study and result in significant costs. High clean-up costs can impede VA's ability to dispose of some of its properties. For example, Dayton medical center officials said many of the older buildings at the facility have lead paint and asbestos, and the associated abatement costs are very high. The buildings have remained vacant because the needed repairs are costly and other VA projects—mainly those that provide a service to veterans—are considered a higher priority.

Another complicating factor is that most VA buildings are eligible for historic designation. In fiscal year 2007, 54 percent of VA's buildings were designated as historic properties or eligible for designation; of these, 56 percent were underutilized and vacant.<sup>39</sup> Under the National Historic Preservation Act,<sup>40</sup> VA, like other federal agencies, is required to manage historic properties under its control and to take into account the effects of its action on historic preservation. VA consults with the State Historic Preservation Office<sup>41</sup> before taking any action, including demolition or construction, on a property that has been designated as historic. The Secretary of the Interior is responsible for establishing standards for all national preservation programs and advising federal agencies on the preservation of historic properties listed or eligible for listing on the National Register of Historic Places. According to VA officials, although demolition is not prohibited, it is generally not an option for historic buildings because of stakeholder interest in preserving the historic properties. Figure 10 shows some of VA's vacant buildings that are on the National Register of Historic Places.

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<sup>39</sup>For the purposes of this report, historic properties include properties that have been designated as National Historic Landmarks, have been listed or are eligible to be listed in the National Register, or have a contributing element in a National Historic Landmark or National Register Listed district.

<sup>40</sup>16 U.S.C. 470 §et seq. The Act establishes roles and responsibilities of the federal government to preserve and protect historic properties.

<sup>41</sup>The State Historic Preservation Office is a state government agency that has legal responsibilities under the National Historic Preservation Act to, among other things, consult federally funded undertakings that affect historic properties.

**Figure 10: Vacant Buildings on the National Register of Historic Places**



Chapel, West Los Angeles, Calif.



Trolley depot, West Los Angeles, Calif.



Former Residence, Dayton, Ohio



Grist Mill, Perry Point, Md.

Source: GAO.

Moreover, according to VA officials, preserving historic buildings in accordance with historic standards is very costly and obtaining funding to restore historic sites can be difficult. VA can seek private funding with public-private partners for restoring historic properties. However, according to VA officials, the cost of restoring historic properties can make it prohibitive for some nonprofit organizations to use the buildings.

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As summarized below, experiences at medical facilities in West Los Angeles and Dayton (shown in fig. 10) illustrate some of the challenges associated with a property's historical status:

- Two vacant properties at the West Los Angeles medical facility are listed on the National Register of Historic Places—the chapel and trolley depot. Any renovations to these buildings must preserve the features of the property that are significant to its historic, architectural, and cultural values. According to VA officials at West Los Angeles, it will cost approximately \$12 million to restore the chapel in accordance with historic standards and \$1 million to restore the trolley depot, which is 600 square feet.
- The Dayton medical center, originally established as a home for Civil War veterans, is the third-oldest site within VA, with several buildings listed on the National Register of Historic Places. According to officials, some of the historic properties could be converted into museums if funding were available, but other properties are not in any condition to be occupied or used without prohibitively costly renovations. VA officials would have to consult with the Ohio State Historic Preservation Office before making any alterations to any of these buildings in Dayton.

Officials reported that some underutilized and vacant buildings are unsafe and should be demolished, but obtaining the necessary funds to demolish these buildings is a challenge. As we previously reported, demolition can be a cost-effective alternative for federal property when the associated costs can be recovered within a reasonable period, primarily through the avoidance of maintenance costs.<sup>42</sup>

However, some VA officials we spoke with stated that demolishing a building also can be costly, particularly when asbestos or other hazardous material abatement is required. For example, in fiscal year 2007, VA spent \$3,449,568 demolishing 44 buildings totaling 216,952 square feet.

Facility managers can use facility funding to keep up with minimal maintenance on vacant buildings and to fund the cost of demolishing a building. However, according to VA officials, facility funds are generally used for healthcare-related construction projects, which they consider a higher priority than demolition projects. Because funds for renovations,

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<sup>42</sup>GAO, *Improved Planning Needed for Management of Excess Real Property*, GAO-03-326 (Washington D.C.: Jan. 29, 2003).



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maintenance, and demolition are limited, necessary repairs and maintenance for vacant properties often are deferred because of lack of funding. As repairs are delayed, building deterioration can worsen and repair costs can escalate. For example, VA officials in Marion, Indiana, reported that a lack of funding to demolish unsafe deteriorating buildings is the primary challenge at that site. They estimated the cost of demolishing four buildings on their site to be \$5 million, much of it resulting from required lead paint and asbestos abatement.

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### Competing Stakeholder Priorities Affect VA's Ability to Reduce Underutilized and Vacant Property

Challenges to reducing vacant and underutilized properties are exacerbated by competing stakeholder interests in real property decisions. Several key stakeholders, including veterans groups, community members, state and local governments, historic preservation organizations, advocacy groups, and the public in general, have an interest in how VA utilizes its properties.

VA officials reported that disposal often is not an option for some properties, in particular historic properties, because of political stakeholders and constituencies, including historic building advocates or local communities that want VA to maintain these properties. In addition, some veterans groups that we met with during our site visits were opposed to any reuse of VA property that does not benefit veterans directly or provide benefits for veterans exclusively. This was illustrated primarily through site visits we conducted in West Los Angeles and Milwaukee.

- In West Los Angeles, community stakeholders and veteran stakeholders have opposed several land use agreements that VA has negotiated with other entities; several of these agreements generate revenue for VA. According to VA officials, many residents of West Los Angeles are opposed to any kind of development on the West Los Angeles campus that will make traffic in the surrounding area worse than it already is. For example, according to VA, community stakeholders were opposed to a mail outpatient pharmacy that was previously located on the West Los Angeles campus. As a result of the opposition, VA moved the service offsite. Similarly, VA had a revenue-generating sharing agreement with the Fox Entertainment Group for use of property on the West Los Angeles campus. However, VA terminated the agreement because of community stakeholder opposition.
- In Milwaukee, VA negotiated a preliminary EUL concept proposal with the City of Milwaukee for approximately 35 acres of vacant land and buildings. Under the terms of the proposal, the City planned to build a biomedical

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research park, assisted living apartments, and a columbarium—a place for cremation urns—on the property. Additionally, VA would have received revenue under the terms of the agreement. The City of Milwaukee eventually dropped negotiations for this EUL proposal because of opposition from veterans. According to VA officials, veterans were opposed to the proposal because it would not benefit veterans exclusively. At the request of several members of Congress, a moratorium on EULs, except for an EUL of the campus chapel, was put in effect in Milwaukee until September 2008. A veterans group that was formed to advocate for preserving the Milwaukee VA facility for the exclusive benefit of veterans told us that the group was opposed to lease agreements that may result in the commercialization of property that the group believed should be used instead for healthcare-related uses. Veterans said VA land is a symbol of the nation’s commitment to healthcare for veterans and should be preserved for use by veterans.

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### Legal Restrictions and Administrative and Budgetary Disincentives also Affect VA’s Ability to Reduce Underutilized and Vacant Property

Legal restrictions and administrative- and budget-related disincentives associated with implementing some authorities affect VA’s ability to dispose and reuse property in some locations. For example, legal restrictions limit VA’s ability to dispose and reuse property in West Los Angeles and Sepulveda. The Cranston Act of 1988<sup>43</sup> precluded VA from taking any action to dispose of 109 of 388 acres in the West Los Angeles medical center and 46 acres of the Sepulveda ambulatory care center. In 1991, when EUL authority was provided to VA, VA was prohibited from entering into any EUL relating to the 109 acres at West Los Angeles unless the lease is specifically authorized by law or for a childcare center.<sup>44</sup> The Consolidated Appropriations Act of 2008<sup>45</sup> expanded the EUL restrictions to include the entire West Los Angeles medical center. The Consolidated Appropriations Act of 2008 also prohibits VA from declaring as excess or otherwise taking action to exchange, trade, auction, transfer, or otherwise dispose of any portion of the 388 acres comprising the VA West Los Angeles medical center. In addition, until September 2008, there is a temporary moratorium on implementing EULs—except for an EUL pertaining to the campus chapel—at the Milwaukee medical center.

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<sup>43</sup>P.L. No. 100-322, Section 421(b)(2), 102 Stat. 487, 553 (1988).

<sup>44</sup>38 U.S.C. § 8162(c).

<sup>45</sup>P.L. No. 110-161, Section 224(a), 121 Stat. 1844, 2272 (2007).

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Finally, budgetary and administrative disincentives associated with some of VA's available authorities may in some instances limit VA's ability to utilize these authorities to reduce underutilized and vacant property.<sup>46</sup> For example:

- VA cannot retain revenue that it obtains from outleases, revocable licenses, or permits; such receipts must be deposited in the Department of the Treasury.<sup>47</sup> VA has said that, except for EUL disposals, restrictions on retaining proceeds from disposal of properties are a disincentive for VA to dispose of property.<sup>48</sup>
- In 2004, VA was authorized until 2011 to transfer real property under its jurisdiction or control and to retain the proceeds from the transfer in a capital asset fund for property transfer costs, including demolition, environmental remediation, and maintenance and repair costs. In our previous work, we reported several administrative and oversight challenges with using capital asset funds.<sup>49</sup> Moreover, VA officials told us that this authority has significant limitations on the use of any funds generated by disposal. For example, VA officials we spoke with reported that the capital asset fund is too cumbersome to be utilized, and VA does not have immediate access to the funds because they have to be reappropriated before VA can use them.
- The maximum term for an outlease, according to VHA law, is 3 years; according to VA officials, this can discourage potential lessees from investing in the property.
- Implementing an EUL agreement can be a lengthy process. According to VA officials, EULs are a relatively new tool, and every EUL is unique and involves a learning process. In addition, VA officials commented that the EUL process can be complicated. According to VA officials, the average time it takes to implement an EUL can range generally from 9 months to 2

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<sup>46</sup>In [GAO-07-349](#), we discuss the administration's focus on real property management as a positive step but note that certain areas warrant further action. Specifically, problems are exacerbated by underlying obstacles, such as legal and budgetary limitations that, in some cases, may be barriers to agencies disposing of excess property.

<sup>47</sup>38 U.S.C. § 8122.

<sup>48</sup>38 U.S.C. § 8164.

<sup>49</sup>GAO, *Capital Financing: Potential Benefits of Capital Acquisition Funds Can Be Achieved through Simpler Means*, [GAO-05-249](#) (Washington, D.C.: Apr. 8, 2005).

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years. The officials noted that land due diligence requirements (such as environmental and historic reviews), public hearings, congressional notification, lease drafting, negotiation, and other phases contribute to the length of the overall process. VA has taken actions to reduce the length of time it takes to implement an EUL agreement, but despite changes to streamline the EUL process, some officials stated that the process is still time consuming and cumbersome.

- VA can dispose of underutilized and vacant property under the McKinney-Vento Act to other federal agencies and programs for the homeless.<sup>50</sup> However, VA officials stated that disposing of property under the McKinney-Vento Act also can be a lengthy, cumbersome process.<sup>51</sup> According to VA officials the process can average 2 years. Under this law, all properties deemed suitable for homeless use by the Department of Housing and Urban Development go through a 60-day holding period, during which the property is ineligible for disposal for any purpose other than for homeless use. Interested homeless representatives submit to the Department of Health and Human Services a written notice of intent to apply for a property for homeless use during the 60-day holding period. After applicants have given notice of intent to apply, they are provided up to 90 days to submit their application to the Department, and the Department has the discretion to extend the time frame if necessary. Once the Department has received an application, it has 25 days to review, accept, or decline the application. Furthermore, according to VA officials, VA may not receive compensation from agreements entered into under the McKinney-Vento Act.

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<sup>50</sup>As noted earlier, VA properties that are leased to another party under an EUL are not considered to be unutilized or underutilized for purposes of the McKinney-Vento Act (see 38 U.S.C. § 8162).

<sup>51</sup>We have reported elsewhere on this process. See GAO, *Federal Real Property: Most Public Benefit Conveyances Used as Intended, but Opportunities Exist to Enhance Federal Oversight*, [GAO-06-511](#) (Washington, D.C.: June 21, 2006).

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## Strategies Used at Some VA Sites and by Other Agencies to Mitigate Stakeholder Challenges and Identify Public-Private Partners Could Be Useful in Other Locations

At some sites we visited, VA has used several strategies to mitigate challenges associated with addressing competing stakeholder interests and preserving older and historic properties. The mitigation strategies we identified included the following:

- *Communication with external stakeholders.* Experiences in three locations we visited illustrated how communicating with external stakeholders helped VA mitigate stakeholder concerns. At Fort Howard, Maryland, VA officials said it was very important to get community stakeholders involved when trying to implement an EUL. VA held several public forums to explain the terms of the proposed EUL. VA advertised these meetings to the local community and according to VA officials, more than 200 community members attended each of these meetings. In Dayton, Ohio, the medical center also held hearings and public forums, which were advertised in local papers, and Dayton officials made special efforts to notify veterans groups about proposed EUL plans. Similarly, at the North Chicago, Illinois, medical center, VA officials reported that although veterans groups in the community expressed initial concern about a proposed EUL at that location, VA conducted outreach efforts to the community to explain the project. As a result of these efforts, VA officials said that these groups voiced little opposition to the proposed EUL. VA officials reported that communicating often with external stakeholders helped VA obtain community buy-in and support for the EUL proposal.
- *Obtaining buy-in and support from internal stakeholders, particularly from high-level senior management.* Strategies in this area also have helped VA address challenges to reducing vacant and underutilized properties, as demonstrated by experiences in some locations. For example, at Fort Howard and Dayton, medical center directors were supportive and active in outreach efforts to minimize vacant and underutilized properties. Directors at these medical centers sought out entities to enter into EULs and other agreements. In addition, directors at these facilities maintained regular communication with potential lessees when negotiating lease agreements. For example, VA entered into an EUL with a private developer for a property in Fort Howard. VA communicated regularly with the developer. According to the developer, VA did a good job informing the public of the plans for Fort Howard and took a very open approach, which according to the director, made the transition easier.
- *Use of partnerships.* VA also has entered into various public-private partnerships to help improve the use of some of its vacant and underutilized property. We previously reported that public-private partnership authority could be an important management tool to address

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problems in deteriorating federal buildings, and we stated that further study of how the tool would work and its benefits compared to other options is needed. In addition, we recommended that Congress consider providing the Administrator of GSA with the authority to proceed with a pilot program to demonstrate the actual benefits that may be achieved.<sup>52</sup> We also have reported that although public-private partnership arrangements can be beneficial, they also increase the need for effective implementation and monitoring by agencies to ensure that the government's interests are protected.<sup>53</sup> Examples cited earlier in this report include several in which VA entered into partnerships with service providers and received such services as childcare for VA employees and substance abuse treatment for veterans. In addition, under VA's disposal policy, VA may enter into partnerships or agreements with public or private entities dedicated to historic preservation to facilitate transfer of properties listed on the National Register of Historic Places. VA has entered into public-private partnerships with organizations to renovate and preserve historic properties. In West Los Angeles, for example, VA has sought out private partners to fund and undertake the restoration of the chapel on the campus. The Getty Foundation funded an architectural study that included renovation plans for the chapel. In Dayton, VA partnered with the local American Veterans Heritage Center for historic facility preservation and development of the historic district. The Veterans of Foreign Wars received a Veteran National Heritage Award of \$1 million to restore and stabilize the floor of the Protestant Chapel. In addition, GSA has other practices for reducing unused property. GSA administers the public benefits conveyance program, which is a means of disposing of federal real property.<sup>54</sup> Under the program, state or local governments and certain tax-exempt nonprofit organizations can obtain real property for approved public benefit uses, including homeless centers, educational facilities, and public parks, at a discount of up to 100 percent of fair market value.<sup>55</sup>

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<sup>52</sup>GAO, *Public-Private Partnerships: Pilot Program Needed to Demonstrate the Actual Benefits of Using Partnerships*, [GAO-01-906](#) (Washington, D.C.: July 25, 2001).

<sup>53</sup>[GAO-05-55](#).

<sup>54</sup> VA is authorized to provide real property to GSA for disposal after the VA secretary determines the property is no longer needed by the department in carrying out its functions and is not suitable to be used to provide services to homeless veterans under an EUL (see 38 U.S.C. § 8122).

<sup>55</sup>[GAO-06-511](#).

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## Conclusions

VA has made progress in managing many aspects of its real property portfolio—specifically, in reducing underutilized space in its buildings in fiscal years 2005 through 2007. The agency also has efforts underway to make further reductions. However, VA continues to face challenges with the vacant building space in its portfolio, which has remained relatively unchanged during this period. Stakeholders can have competing interests as to how vacant and underutilized properties should be reused or disposed of. In addition, VA faces challenges reducing underutilized or vacant properties that have been designated historic, and that require prohibitively high repair costs. Nevertheless, the managers of several VA facilities have overcome some of these challenges through effective stakeholder outreach efforts, by obtaining buy-in support from internal stakeholders, and by entering into various public-private partnerships.

Underutilized and vacant properties detract from mission effectiveness by utilizing resources that could be used more effectively to support other mission priorities. Without complete building-level data that are comparable from year to year, it is difficult for VA to analyze correlations between building utilization and location, condition, and age—information that can be beneficial in identifying assets for disposal. Furthermore, we estimated that VA spent about \$481,000 each day on underutilized and vacant VHA property in fiscal year 2007. However, VA has not developed its own estimate and therefore does not know how much it is spending maintaining underutilized and vacant property, money that could be better spent providing healthcare services to veterans. Without a reliable cost estimate to serve as a benchmark from which to measure progress in decreasing these costs over time, VA has no means to assess progress in reducing annual costs on underutilized and vacant property.

VA's reduction of underutilized space by nearly two-thirds over the last 2 fiscal years represents significant progress. However, VA's inability to clearly identify the extent to which its use of authorities contributed to reductions in underutilized space is a matter of concern. While VA's use of various legal authorities has been a likely contributor to these reductions, the extent of this contribution is unknown because VA does not track how the use of these authorities has helped reduce underutilized or vacant space or resulted in monetary and other benefits that can improve services for veterans. While VA's portfolio management goals include decreasing underutilized space in its assets, further progress in reducing underutilized and vacant space will largely depend on VA developing a better understanding for why changes occurred and the impact of these agreements. Although VA data systems limit their ability to analyze the effect of agreements on underutilized and vacant property, archiving and

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analyzing this data by fiscal year would allow VA to make year-to-year comparisons. This type of information can better aid VA in decision making and managing its underutilized and vacant property.

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## Recommendations for Executive Action

We recommend that the Secretary of Veterans Affairs take the following three actions:

To provide VA with an accurate picture of what it spends annually on maintaining underutilized and vacant property and a benchmark from which to work in decreasing these costs, develop an annual cost estimate for how much it spends on underutilized and vacant property, so that the estimate is comprehensive, accurate, well-documented, and credible.

To provide VA with a better understanding of the overall effect of various efforts on its underutilized and vacant property and to identify properties for disposal: (1) collect and maintain building-level data by fiscal year in order to correlate characteristics associated with underutilized and vacant buildings, which may help to identify unneeded assets; and (2) track, monitor, and evaluate square footage reductions and financial and nonfinancial benefits when recording new agreements as of fiscal year 2008.

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## Agency Comments and Our Evaluation

We provided a draft of this report to VA for review and comment. VA provided written comments, which are reprinted in appendix III. VA concurred in principle with two of our three recommendations. Specifically, VA concurred with our two recommendations that VA develop an annual cost estimate of spending on VA's underutilized and vacant property and track, monitor, and evaluate square footage reductions and financial and nonfinancial benefits when recording new agreements. However, VA did not concur with our recommendation that the agency collect and maintain building-level data by fiscal year in order to correlate characteristics associated with underutilized and vacant buildings, which may help to identify unneeded assets. In addition, VA's written comments highlighted five areas of disagreement with our report. VA also provided technical clarifications, which we incorporated, where appropriate. VA's comments are discussed in more detail below.

VA did not concur with our recommendation regarding collecting and maintaining building-level data because the agency maintains that it collects and analyzes a significant amount of data at the station and building-level. Furthermore, VA stated that it is in compliance with



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reporting requirements established by the Federal Real Property Council and that it uses performance measures to identify unneeded assets that may be candidates for disposal.

Although we agree that VA collects a significant amount of data at the station and building level, we do not agree that that this information is sufficient to correlate characteristics with VA's underutilized and vacant buildings. Because VA does not maintain and analyze building-level data by fiscal year, VA was unable to determine trends relating to reductions in underutilized space at the building level during fiscal years 2005 through 2007. The absence of data prior to fiscal year 2006 prevented VA from running certain trend analyses, including the correlations, if any, between utilization and building location, condition, and age—information that can be beneficial in identifying assets for disposal. Furthermore, while VA does use performance measures to identify assets that may be candidates for disposal, the agency does not estimate the costs of these disposals, and they have not been funded. In addition, the agency's disposal plans are not prioritized. Because of the need to better correlate characteristics associated with underutilized and vacant property, which may help to identify unneeded assets, we believe this recommendation remains valid.

VA's first disagreement with our report was that we had double-counted vacant space; this issue, however, was resolved prior to our receiving VA's written response. After we sent our draft report to VA for official agency comment, VA officials told us, for the first time, that their data on underutilized square footage include vacant square footage, and that these categories of space are not mutually exclusive as we had previously identified. We subsequently provided VA officials with revisions to our draft report and analysis on August 1, 2008, reflecting VA's vacant square footage as a subset of underutilized square footage. We are now reporting that VA had 5.6 million square feet of underutilized building space in fiscal year 2007. VA officials did not consider this revised information and the resulting changes we made to the draft report in their subsequent agency comments.

VA's second and related disagreement was that we had overstated the unit costs for operations and maintenance of underutilized space. Two factors contributed to this comment. First, as noted previously, VA said that we had double-counted vacant space. Therefore, we revised our cost estimate after learning that our original estimate had double-counted vacant space—from \$307 million to \$175 million—to reflect that vacant square footage is a subset of its underutilized space (see above). We provided VA officials with updated report language on August 1, 2008, including a newly

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revised cost estimate of \$176 million (later revised to \$175 million) for VA's underutilized and vacant square footage for fiscal year 2007. VA officials did not provide comments on our revised cost estimates in their subsequent written agency comments. Second, VA commented that VA and GAO differ in the approaches and methodologies used to estimate unit costs for operating and maintaining underutilized space. Because of these different methodologies, our revised cost estimate of \$175 million is higher than the estimate that VA provided in its comments of \$85.2 million.<sup>56</sup> We did not evaluate VA's \$85.2 million estimate because the agency did not provide this estimate during the course of our review, and its written comments did not include the underlying cost elements or methodology for comparison. Furthermore, VA concurred with our recommendation to develop an annual cost estimate for how much it spends on underutilized and vacant property, so that the estimate is comprehensive, accurate, well-documented, and credible.

Regarding VA's third area of disagreement—that it does have valid cost information from which to make sound and prudent decisions—we acknowledge that VA maintains some information important for such decision making, but believe it needs to retain more comprehensive building-level data by fiscal year. As discussed earlier, VA's prorated approach to cost estimating does not lend itself to determining the maintenance cost associated with underutilized or vacant property. While we recognize that VA does collect current year building-level data, such as square footage and type, VA does not archive this data in its Capital Asset Inventory database and prior to 2006, overwrote building-level data collected each year. VA maintains historical inventory and financial data at the *station* level. However, VA has not used its building- or station-level data to develop a reliable method for estimating operating and maintenance costs for underutilized and vacant properties. VA's written comments also note that it is developing requirements for a real property

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<sup>56</sup>The Federal Real Property Council requires federal agencies to report annual operation and maintenance costs at the constructed asset (i.e., building) level. Because VA does not meter its buildings, the agency uses a prorated distribution of actual operations and maintenance costs at the station level to estimate operational costs at the building level. However, VA officials told us that this approach does not lend itself to determining the operations and maintenance costs associated with underutilized or vacant property. We therefore developed an independent cost estimate for what VA is spending on underutilized and vacant property using cost model data provided by the Whitestone Building Operations Cost Reference—a document published and updated annually, which reflects industry standards and surveys building operations costs.

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cost accounting system to replace VA's existing financial management system, and this new system may allow VA to better track operations and maintenance for underutilized and vacant properties. While this could be a significant step in improving its ability to make decisions regarding vacant and underutilized property, reviewing VA's plans for this cost accounting system was outside the scope of this engagement.

VA's fourth area of disagreement was that our report did not acknowledge VA's efforts to designate properties for disposal based on mission dependency, utilization, condition, and cost; however, we believe that more needs to be done in this area. We commend VA for using performance measures to identify assets that may be candidates for disposal, and we note in our report that VA has a plan that includes a list of such assets. We also recognize VA's significant reduction in its underutilized property since fiscal year 2005 and provide examples throughout our report of ongoing VA efforts to make further reductions. For instance, VA continues to identify potential opportunities for EUL agreements. As previously noted, VA has not estimated the costs of many of the disposals on its list, the disposals have not been funded, and the agency's disposal plans are not prioritized. For these reasons, we recommended that the VA collect and maintain building-level data by fiscal year in order to correlate characteristics associated with underutilized and vacant buildings, which may help further identify unneeded assets.

VA's fifth area of disagreement was that VA does track revenue generated, square footage reductions, and services received through agreements, although this is not accomplished systematically. While we believe that our report generally reflected these facts, in response to VA's comments and new information provided, we added language to the report stating that VA prepares a comprehensive annual report for Congress that describes financial and nonfinancial impacts of its EULs. VA officials brought this report to our attention after we had submitted our draft for their comment. However, we note that VA does not conduct a similar analysis for other agreements, which greatly outnumber EULs. Our report also notes that VA receives financial and nonfinancial benefits from certain agreements, and now also states that VA has a data system to record the revenue received. However, we also note that the information is not complete and therefore VA cannot systematically track and monitor related information to determine the effect the authorities are having, as VA acknowledged. VA concurred with our related recommendation to track, monitor, and evaluate square footage reductions and financial and

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nonfinancial benefits when recording new agreements, as of fiscal year 2008.

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We are sending copies of this report to the Secretary of Veterans Affairs and other interested parties. We also will make copies available to others on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions about this report, please contact me at (202) 512-2834 or [goldsteinm@gao.gov](mailto:goldsteinm@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'M. Goldstein', with a long horizontal flourish extending to the right.

Mark L. Goldstein,  
Director, Physical Infrastructure Issues

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# Appendix I: Objectives, Scope, and Methodology

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Our objectives were to identify (1) to what extent the Department of Veterans Affairs (VA) has reduced underutilized or vacant property, and how much it spends maintaining the underutilized or vacant property it retains; (2) how VA has used its authorities to reduce underutilized and vacant property and to what extent it tracks how these authorities contribute to reductions; (3) what, if any, challenges VA faces in minimizing underutilized and vacant property, using enhanced-use leases (EUL) and other agreements, and what steps VA is taking to address these challenges.

To better understand the actions taken by VA to reduce its underutilized and vacant property, we reviewed relevant documents, including asset management plans, policy handbooks and directives, and the most recent strategic plan. We reviewed VA's performance goals and measures related to reducing underutilized and vacant property. For instance, we reviewed VA's *5-Year Capital Plan*, a key document that identifies how VA manages its real property and outlines its capital portfolio goals. To identify changes in the amount of underutilized and vacant property, we analyzed property data from two VA databases: the Capital Asset Inventory database for building-level data from fiscal years 2006 and 2007 and the Capital Asset Management System for station-level data from fiscal years 2005 through 2007.<sup>1</sup> Since building-level data were snapshots taken at different points in time, the data were not comparable. As a result, we only reported correlations relating to a building's utilization and characteristics, including age and condition, in fiscal year 2007. To estimate the cost of operating and maintaining VA's underutilized and vacant property, we used space utilization information from the Capital Asset Inventory and industry data on maintaining space to develop our own independent cost estimate, which included conducting an uncertainty and sensitivity analysis. Further information on the methodology used to conduct our independent cost estimate is provided in appendix II.

To determine the extent to which VA tracks the impact of its authorities on reducing underutilized and vacant property, we collected and analyzed data from the Capital Asset Management System on the number of asset-related agreements (including EULs, sharing agreements, and outleases). Specifically, we reviewed VA's use of various real property authorities

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<sup>1</sup>The earliest year in which VA property data were available was fiscal year 2005 for station-level data and fiscal year 2006 for building-level data. Fiscal year 2005 represented the first year all data elements were fully collected in the Capital Asset Management System.

from fiscal years 2005 through 2007. We attempted to measure the impact these authorities had on underutilized and vacant property, including whether they may have resulted in square footage reductions, generated revenue, or provided various services to VA. We attempted to quantify this information where possible. In addition, we visited and conducted interviews at locations where these agreements were entered into to understand the benefits VA has received from them and their impact on property management.

Finally, to identify the challenges VA faces when minimizing its underutilized and vacant property, we spoke to VA headquarters officials to obtain their views on these challenges and any improvements that could be made to allow VA to better utilize its property. We visited selected locations where VA encountered challenges minimizing underutilized and vacant property and identified strategies for mitigating these challenges. We also spoke with stakeholders, including veterans service organizations and lessees, interested in VA's real property decisions. We conducted our site visits at eight VA medical facilities including Dayton, Ohio; Fort Howard, Maryland; Los Angeles, California; Marion, Indiana; Milwaukee, Wisconsin; North Chicago, Illinois; Perry Point, Maryland; and North Hills (Sepulveda), California. We selected this nonprobability sample of sites to obtain a range of examples of VA's experiences with various real property authorities; the amount of, or changes in, underutilized and vacant property; and geographic dispersion. We also toured a Veterans Benefits Administration (VBA) facility in Milwaukee and a national cemetery in Alexandria, Virginia. While we attempted to select varied locations, our sample cannot be statistically projected to VA as a whole. We also analyzed condition data from VA's Facility Condition Assessment database for fiscal years 2006 and 2007 to identify estimated repair costs for buildings that received a D or F rating.

To assess the reliability of the data from each of the VA databases used in our work, we (1) obtained information from the system owner or manager on their data reliability procedures, (2) reviewed systems documentation, (3) performed electronic testing to identify obvious errors in accuracy and completeness, (4) compared the data with information we obtained from each of the site visits, and (5) compared the building- and station-level data with various national data reports that VA provided. When we found obvious discrepancies, such as abrupt changes in the amount of a station's underutilized property or data that did not match what we observed during site visits, we brought them to the attention of agency management for corrective action. After reviewing possible limitations of all the data

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sources, we determined that the data provided were sufficiently reliable for the purposes for which we have used them in this report.

We conducted this performance audit from July 2007 to September 2008 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.

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# Appendix II: Independent Cost Estimate Methodology

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Using a methodology based on best practices, we estimate that VA spent \$175 million in fiscal year 2007 operating and maintaining underutilized and vacant Veterans Health Administration (VHA) property. We developed our own independent cost estimate for what VA is spending on underutilized and vacant property using cost model data provided by the Whitestone Building Operations Cost Reference—a document published and updated annually that reflects industry standards and surveys building operations costs. Our analysis used average cost per square foot for each operations cost element, such as security and maintenance and repair, and adjusted for variations in cost by locality.

A reliable cost estimate is critical for informed investment decision making, realistic budget formulation and program resourcing, meaningful progress measurement, proactive course correction when warranted, and accountability for results. According to the Office of Management and Budget (OMB),<sup>1</sup> programs must maintain current and well-documented estimates of program costs, and these estimates must encompass the full life cycle of the program. Among other things, OMB states that generating reliable program cost estimates is a critical function to supporting OMB's capital programming process. Without this capability, agencies are at risk of experiencing program cost overruns, missed deadlines, and performance shortfalls.

Our research has identified a number of best practices that are the basis of effective program cost estimating. We have grouped these practices into four characteristics of a high-quality and reliable cost estimate:<sup>2</sup>

- *Comprehensive.* The cost estimates should include both government and contractor costs of the program over its full life cycle, from inception of the program through design, development, deployment, and operation and maintenance to retirement of the program. They also should provide a level of detail appropriate to ensure that cost elements are neither omitted

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<sup>1</sup>OMB, *Circular No. A-11, Preparation, Submission, and Execution of the Budget* (Washington, D.C., Executive Office of the President, June 2006); *Circular No. A-130 Revised, Management of Federal Information Resources* (Washington, D.C., Executive Office of the President, Nov. 28, 2000); and *Capital Programming Guide: Supplement to Circular A-11, Part 7, Preparation, Submission, and Execution of the Budget* (Washington, D.C., Executive Office of the President, June 2006).

<sup>2</sup>GAO, *Cost Assessment Guide: Best Practices for Estimating and Managing Program Costs—Exposure Draft*, [GAO-07-1134SP](#). (Washington, D.C.: July 2007).



nor double counted, and they should document all cost-influencing ground rules and assumptions.

- *Well-documented.* The cost estimates should have purposes that are clearly defined, and be supported by documented descriptions of key program or system characteristics (e.g., relationship to other systems, performance parameters, etc.). Additionally, it should capture in writing such things as the source data used and their significance, the calculations performed and their results, and the rationale for choosing a particular estimating method or reference. Moreover, this information should be captured in such a way that the data used to derive the estimate can be traced back to, and verified against their sources. The final cost estimate should be reviewed and accepted by management to ensure that there is a high level of confidence in the estimating process and the estimate itself.
- *Accurate.* The cost estimates should provide for results that are unbiased, and they should not be overly conservative or optimistic (i.e., should represent most likely costs). In addition, the estimates should be updated regularly to reflect material changes in the program, and steps should be taken to minimize mathematical mistakes and their significance. Among other things, the estimate should be grounded in documented assumptions and a historical record of cost estimating and actual experiences on other comparable programs.
- *Credible.* The cost estimates should discuss any limitations in the analysis performed due to uncertainty or biases surrounding data or assumptions, and their derivation should provide for varying major assumptions and recalculating outcomes based on sensitivity analyses, and the associated risk and uncertainty inherent in estimates should be disclosed. Further, the estimates should be verified based on cross-checks using other methods and by comparing the results with independent cost estimates.

We found that VA does not have a reliable cost estimate for operating and maintaining underutilized and vacant VHA property because it does not have a system for tracking operations and maintenance costs on a building-by-building basis. In recognizing this shortcoming, VA's office responsible for cost estimating calculated operating costs for VA medical facilities with various levels of occupancy, including fully utilized,

mothballed adjacent, and mothballed standalone.<sup>3</sup> Using the data VA provided to us on the number of underutilized and vacant square feet it has retained in 2007, we multiplied these figures with cost estimates from the VA pricing guide to determine the amount VA spends to operate buildings at VHA facilities. Our estimate using the VA pricing guide showed that VA may be spending \$148 million a year on operating and maintaining underutilized and vacant property. To test the reliability of this cost estimate, we assessed the VA pricing guide against our four characteristics of a high-quality and reliable cost estimate and found it did not fully reflect best practices associated with a reliable cost estimate, including being comprehensive, well-documented, accurate, and credible (see table 6).

**Table 6: Summary of VA’s Implementation of Best Practices for Cost Estimating in Its Pricing Guide**

<b>Cost estimation best practice characteristic</b>	<b>Addressed in cost estimate?</b>
Comprehensive	Partial
Well-documented	No
Accurate	No
Credible	No

Source: GAO analysis of VA pricing guide.

The annual cost estimate of \$148 million is not fully comprehensive because it does not include all potential operations and maintenance costs. Specifically, the VA pricing guide includes costs associated with electricity, water, gas, sewage, major systems maintenance, building shell maintenance,<sup>4</sup> janitorial services, and security. However, it does not include other pertinent costs such as property management, grounds maintenance, and pavement clearance. The VA official responsible for the development of the pricing guide said that these costs were omitted because the estimates he included were those directly related to the buildings and not the surrounding area. Our site visits to VHA medical

<sup>3</sup>Mothballed-adjacent properties are sections of a building that are vacant (e.g., a wing that has been shut down), but are attached to a building that is still in operation. Mothballed-adjacent properties incur more maintenance costs due to leakage from ventilation systems, the possibility of a pipe bursting and flooding the vacant area, etc. Mothball-standalone properties are vacant properties.

<sup>4</sup>Shell maintenance includes tuck pointing (i.e., the replacement of mortar), roof repair, and window replacement.

facilities revealed that costs associated with engineering project management, which we consider to be similar to real property management, and grounds maintenance are annual costs that should be considered. Moreover, the Federal Real Property Council requires agencies to report annually the following operating costs: recurring maintenance and repair costs, utilities (includes plant operation and purchase of energy), cleaning and janitorial costs (includes pest control, refuse collection, and disposal to include recycling operations), and roads and grounds expenses (includes grounds maintenance, landscaping, and snow and ice removal from roads, piers, and airfields). Therefore, we determined that because some costs were omitted, the cost estimate is not comprehensive and is likely underestimated. Moreover, although the VA official who developed the pricing guide identified some key assumptions, such as the cost elements included in the estimate, other key assumptions, such as labor rates and inflation indexes, were not known.

The cost estimate does not meet best practices for being well-documented. For example, VA has neither documented the calculations and results used to derive the cost estimate, including the methodologies used, nor has it traced the cost estimate back to source data (e.g., vendor invoices, salary data, etc.). The VA official responsible for developing the pricing guide described the estimating approach used, such as contacting the Defense Health Program, Marshall Erdman, McFaul & Lyons, Marshall & Swift, and the Building Owners and Managers Association to collect data on utility (i.e., gas, electric, and sewer), janitorial, security and maintenance costs in the Washington, D.C., area, but could not provide detailed documentation of the estimate that showed the methodology used to arrive at the total costs of each of these elements and how they were summed to arrive at the overall cost estimate. Therefore, the lack of documentation to support the program's cost estimate raises questions about its accuracy.

The cost estimate does not meet best practices for accuracy in that it does not reflect an assessment of the costs most likely to be incurred. Specifically, the cost estimate omits pertinent costs associated with general property management and grounds maintenance, which results in underestimating the total annual costs. In addition, the data used to develop the cost estimate are not accurate as some judgment calls had to be made because the agencies VA contacted did not calculate operations and maintenance costs consistently. For example, McFaul & Lyons calculated heating and cooling costs but not maintenance costs. Marshall Erdman did not include water and sewer costs. Moreover, the Building Owners and Managers Association's costs were based on 10 hours of operation per day whereas VA is a 24 hour / 7 days a week operation.

Finally, VA warns users of the VA pricing guide that the data should be used for strategic planning purposes only and not for budgeting because the costs shown are averages to be used for establishing an order of magnitude. It further cautions that actual costs will vary depending on the complexity and unique conditions of each project.

The cost estimate does not meet best practices for being credible in that cross-checks were not performed on the cost estimate for key cost drivers, and sensitivity analysis and risk analysis were not conducted on the cost estimate. While VA claimed that other organizations reviewed the validity of the cost estimates in the VA pricing guide, it provided no documentation for us to verify. A sensitivity analysis reveals how the cost estimate is affected by a change in a single assumption or cost driver, such as rising energy costs, while holding all other parameters constant. By contrast, a risk analysis assesses the aggregate variability of the cost estimate to determine a confidence range around the estimate.<sup>5</sup> Conducting a sensitivity analysis could have enabled VA to estimate the potential cost impacts due to rising energy costs and to capture the differences in costs from one location to another. Conducting a sensitivity analysis also could have enabled VA to estimate potential cost impacts due to differences in costs from one location to another. In performing a risk analysis, an organization varies the effects of multiple factors on costs and, as a result, can express a level of confidence in the cost estimate. Because VA has not conducted any analysis of uncertainty, it has not produced a credible cost estimate. Absent this analysis, VA's ability to identify and focus on major cost drivers, better understand the potential for cost growth, quantify the risk and uncertainty associated with the cost estimate, and provide a level of confidence for the cost estimate is impeded. Further, VA did not have an independent cost estimate prepared to try to validate its annual cost estimate.

The senior VA official responsible for cost estimating stated that VA does not have the resources it needs to develop cost estimates in accordance with the best practices identified in our Cost Assessment Guide. Additionally, there is no formal policy within VA on how to develop cost estimates for operating and maintaining underutilized and vacant space. For example, the medical facilities we visited either had their own processes to develop annual cost estimates or did not know what they

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<sup>5</sup>A risk analysis can be accomplished by the use of Monte Carlo simulation, which involves the use of random numbers and probability distributions to examine random outcomes.

were spending. By not following practices associated with developing reliable cost estimates, VA does not have valid cost information from which to make sound and prudent decisions. Furthermore, the lack of a reliable cost estimate results in VA not knowing how much it spends each year on space that provides no benefit to veterans or taxpayers. Without a full accounting of the cost to operate underutilized and vacant space, VA will continue to spend millions of dollars each year on property it does not utilize.

The results of a high-quality, reliable cost estimate should be cross-checked using an independent cost estimate to determine whether other estimating methods produce similar results. An independent cost estimate is considered to be one of the most reliable validation methods. An independent cost estimate typically is performed by organizations higher in the decision-making process than the office performing the baseline cost estimate, using different estimating techniques and, where possible, different data sources from those used to develop the baseline cost estimate.

Given the VA pricing guide did not meet best practices, we felt it was imperative to test the reasonableness of the \$148 million estimate we derived from using the VA pricing guide. In response, we developed our own independent cost estimate for what VA is spending on underutilized and vacant property using cost model data provided by the Whitestone Building Operations Cost Reference—a document published and updated annually, which reflects industry standards and surveys building operations costs.<sup>6</sup> This source provided an independent set of raw data for operation cost elements.

- *Energy* includes all expenses related to the purchase, generation, distribution, and conservation of energy and source fuels necessary to operate a building; utilities maintenance and supervision are not included.
- *Maintenance and repair* include all activities to keep a building in good working order. Preventative maintenance, unscheduled maintenance, and component repair and replacement costs are considered maintenance and repair activities, while restoration and modernization are not.

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<sup>6</sup>Our independent cost estimate was developed only for VHA facilities since those were the facilities VA developed cost estimates for in its pricing guide, and we wanted the estimates to be comparable. Furthermore, the majority of underutilized and vacant space is at VHA facilities.

- *Property management* includes services common to a large commercial facility: public works, business services, contracts, material procurement, facility data, furnishings, real estate, and engineering services.
- *Water and sewer* include potable water, irrigation water, and sewage service.
- *Custodial* includes services for cleaning offices, work areas, restrooms, and common areas. Trash removal is not included in this cost element.
- *Grounds maintenance* includes maintenance of exterior areas, such as landscaping, sidewalks, and external parking lots.
- *Telecom* includes voice and data equipment and service subscriptions.
- *Pest control* includes both indoor and outdoor pest control programs.
- *Refuse* is trash collection and disposal, pick-up services, fees, recycling operations and administration, composting, and more. Handling and disposal of hazardous materials are not included.
- *Security* ensures the physical security of buildings and occupants, including monitoring equipment, guards, and patrol services.
- *Pavement clearance* includes sweeping sand and debris and removing snow and ice from paved areas, including sidewalks, walkways, and parking lots.

From the Whitestone Building Operations Cost Reference, operations data were presented for many different structure types, but a small subset of VHA analogous facilities were selected for our analysis, including hospitals and medical clinics. Based on a sample set of structures, we calculated an average cost per square foot for each operations cost element. In addition, costs were normalized for location using locality indices. Since cities were not a one-for-one match with VHA cities, we rolled the data up to the state level. Our analysis using average cost per square foot for each operation's cost element and normalized for state-level locality indices yielded a most likely cost estimate of \$175 million for 2007. In addition, the Whitestone publication provided nominal upper bounds and lower bounds for each cost element. We modeled the data dispersion using triangular probability distributions defined by the lower bound and upper bound extended to two standard deviations, and most

likely values.<sup>7</sup> Table 7 displays the 2007 cost per square foot data range used in our cost uncertainty modeling.

**Table 7: 2007 Operations Cost per Square Foot**

<b>Cost element</b>	<b>Lower bound</b>	<b>Most likely</b>	<b>Upper bound</b>
Energy	\$4.18	\$8.63	\$10.36
Maintenance and repair	\$2.16	\$4.13	\$7.74
Real property management	\$0.00	\$3.90	\$7.63
Custodial services	\$0.64	\$3.82	\$7.20
Water/waste water	\$0.00	\$1.71	\$10.18
Telecom	\$0.16	\$0.42	\$0.64
Security	\$0.19	\$0.35	\$2.91
Grounds maintenance	\$0.05	\$0.21	\$0.39
Refuse collection	\$0.00	\$0.10	\$0.34
Pest control	\$0.02	\$0.07	\$0.10
Pavement clearance	\$0.00	\$0.02	\$0.04
<b>Subtotal operations costs</b>		<b>\$23.36</b>	
<b>Subtotal mothball costs</b>		<b>\$8.70</b>	

Source: GAO.

Mothball costs for vacant property were based on a subset of operations costs; some cost elements were modeled at a reduced service level.

- Cost estimates for grounds maintenance, pest control, and pavement clearance were based on 100 percent service.
- Energy costs were modeled with factor of full service, using a triangular probability distribution ranging from 25 percent to 50 percent.
- Maintenance and repair costs were modeled with factor of full service, using a triangular probability distribution ranging from 25 percent to 75 percent.

<sup>7</sup>The data printed in the Whitestone publication represent nominal bounds. We extended both tails of the distribution from one standard deviation to two standard deviations to reflect 95 percent of all possible outcomes based on discussion with the publication lead author.

- Property management costs were modeled with factor of full service, using a triangular probability distribution ranging from 50 percent to 100 percent.
- Security costs were modeled with factor of full service, using a triangular probability distribution ranging from 25 percent to 50 percent.
- No custodial or telecom costs were included for vacant property.

Costs were normalized for location using locality indices. Since the cities used in the Whitestone publication were not a one-for-one match with VA cities, data were rolled up to the state level. For each state, city-level locality indices were grouped. The grouped data were used to calculate an average and a standard deviation. Our analysis used these calculated average state-level locality indices to adjust for differences in costs across the country. Table 8 displays the locality indices and standard deviations associated with each state.

**Table 8: 2007 Operations Cost State-level Locality Indices**

<b>State</b>	<b>Mean</b>	<b>Standard deviation</b>
AK	1.045	0.015
AL	0.862	0.017
AR	0.808	NA
AZ	0.878	0.017
CA	1.026	0.044
CO	0.890	0.021
CT	1.062	0.030
DC	1.000	NA
DE	0.973	NA
FL	0.879	0.023
GA	0.861	0.043
HI	1.287	0.031
IA	0.882	0.023
ID	0.812	0.015
IL	0.933	0.028
IN	0.883	0.016
KS	0.866	0.021
KY	0.863	0.011
LA	0.874	0.016



**Appendix II: Independent Cost Estimate  
Methodology**

<b>State</b>	<b>Mean</b>	<b>Standard deviation</b>
MA	1.057	0.035
MD	0.960	NA
ME	0.929	NA
MI	0.905	0.044
MN	0.921	0.029
MO	0.889	0.053
MS	0.844	0.018
MT	0.837	0.011
NC	0.822	0.014
ND	0.815	0.006
NE	0.848	NA
NH	0.999	NA
NJ	1.080	0.027
NM	0.853	0.023
NV	0.924	0.001
NY	1.084	0.084
OH	0.926	0.012
OK	0.836	0.013
OR	0.893	0.011
PA	0.951	0.042
RI	1.021	NA
SC	0.818	0.006
SD	0.792	0.022
TN	0.851	0.023
TX	0.879	0.025
UT	0.822	0.005
VA	0.823	0.019
VT	0.926	0.001
WA	0.892	0.024
WI	0.911	0.022
WV	0.866	0.001
WY	0.788	NA

Source: GAO.

Square footage across sites was sorted and summed to the state level. Table 9 presents space claims for underutilized and vacant facilities.

**Appendix II: Independent Cost Estimate  
Methodology**

**Table 9: 2007 VA Facilities Square Feet of Underutilized and Vacant Space**

Summarized			Summarized		
State	Underutilized 2007 (sq ft)	Vacant 2007 (sq ft)	State	Underutilized 2007 (sq ft)	Vacant 2007 (sq ft)
Alaska	-	-	Mississippi	-	7,367
Alabama	434,641	382,873	Montana	-	107,457
Arkansas	136,243	58,824	North Carolina	-	54,456
Arizona	-	13,618	North Dakota	-	-
California	411,243	803,820	Nebraska	-	65,552
Colorado	-	12,799	New Hampshire	-	-
Connecticut	41,635	59,175	New Jersey	160,728	186,621
District of Columbia	-	-	New Mexico	-	-
Delaware	-	15,184	Nevada	-	-
Florida	-	23,104	New York	865,651	868,299
Georgia	136,834	251,728	Ohio	226,486	352,457
Hawaii	-	-	Oklahoma	54,596	8,733
Iowa	69,686	275,140	Oregon	22,672	62,257
Idaho	-	4,276	Pennsylvania	407,547	173,098
Illinois	260,319	558,152	Puerto Rico	-	-
Indiana	289,985	473,365	Rhode Island	-	100
Kansas	-	25,833	South Carolina	-	67,369
Kentucky	136,940	302,567	South Dakota	44,773	60,145
Louisiana	261,843	9,604	Tennessee	290,566	102,406
Massachusetts	148,210	260,730	Texas	121,707	277,042
Maryland	72,652	93,779	Utah	68,940	-
Maine	-	25,594	Virginia	239,458	161,154
Michigan	312,247	235,761	Vermont	-	-
Minnesota	18,372	27,322	Washington	10,217	37,788
Missouri	-	140,718	Wisconsin	-	396,053
			West Virginia	-	19,139
			Wyoming	6,734	29,886
<b>Total</b>				<b>5,250,925</b>	<b>7,091,345</b>

Source: GAO.

For each cost element, the operations cost per square foot was multiplied by the underutilized and vacant square footage, and the result was adjusted for locality using a state-index.

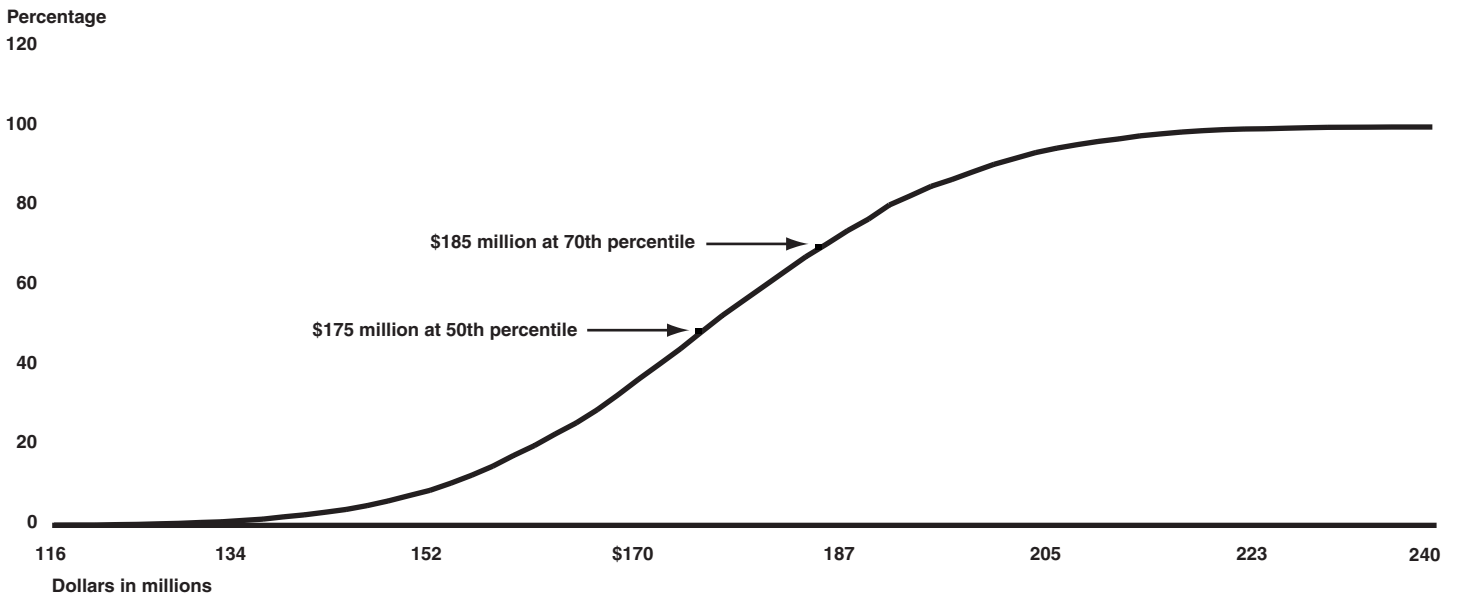
Given the importance of sensitivity and uncertainty analyses<sup>8</sup> for producing a high-quality cost estimate, we conducted these analyses for our independent cost estimate. Using the Whitestone data, we were able to model the cost uncertainty (statistical bounds) of our independent cost estimate, which enabled us to understand the potential variability of our cost estimate should the facts, circumstances, and assumptions change. Performing an uncertainty analysis enabled us to quantify the risk and uncertainty associated with our cost estimate and allowed us to provide a level of confidence for our cost estimate by providing us with a statistical perspective on the potential variability within it.

Based on this analysis we estimate that the annual cost of operating and maintaining underutilized and vacant VHA space could vary from \$175 million to \$185 million at the 50 percent and 70 percent confidence levels, respectively (see fig. 11).

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<sup>8</sup>An uncertainty analysis is a technique used to quantitatively assess the extent to which the variability of an outcome variable is caused by uncertainty in the input parameters. Inputs to the model are assigned probability distributions, and values from these distributions are selected randomly and inserted into the cost model. The model then yields a point estimate according to these randomly selected inputs. Using Monte Carlo simulation, this process is repeated thousands of times to construct a distribution of all possible final output costs. Percentiles of this final output distribution may then be compared to the percentile represented by the model's original point estimate to measure the risk associated with the point estimate. Using Crystal Ball software, we ran the calculations through a Monte Carlo simulation of 5,000 trials in which costs (and indices) are pulled from the defined probability distributions as previously described. This process yielded a cost estimate of \$175 million for fiscal year 2007.

Figure 11: Cumulative Probability Distribution of Total 2007 Costs



Source: GAO.

When compared to the \$148 million cost estimate we produced using the VA pricing guide, there is less than a 10 percent probability that the estimate will be \$148 million or lower based on the amount of variation that exists within the operating cost elements and locality indices (see table 10). The analysis also revealed that energy, maintenance, and property management are the cost drivers and contribute the most variability within the independent cost estimate.

**Table 10: Percentile Rankings for 2007 Total Costs**

Percentile	Value
0%	\$116,486,663
10%	\$153,184,555
20%	\$160,645,545
30%	\$166,572,771
40%	\$171,012,617
50%	\$175,463,250
60%	\$180,112,142
70%	\$185,090,415
80%	\$190,506,295
90%	\$199,187,043
100%	\$240,229,959

Source: GAO.

The estimate at this confidence level represents an assumption that the inputs—i.e., VA’s data on underutilized and vacant square footage—are accurate. According to VA officials, the data on vacant square feet are inputted directly into the Capital Asset Inventory. Underutilized square footage, on the other hand, is calculated by subtracting ideal square footage from the total square footage available at each station. Ideal square footage, in turn, is imputed using a VA program—SpaceDriver—from many inputs, including patient workloads and medical service standards. Moreover, according to VA officials, underutilized square footage includes vacant square footage. To calculate underutilized square footage for this report, we subtracted the vacant square footage from VA’s reported underutilized square footage. There were several VHA stations for which vacant square footage exceeded the reported underutilized square footage, however, resulting in a negative number. A VA official said that these were due to reporting deficiencies, where common space and other incidental space were not properly recorded in the Capital Asset Inventory. In addition, we identified some other data errors during the course of our audit that VA is working to correct. We do not know the extent to which such reporting deficiencies or errors are prevalent in the system. VA is in the process of completing an audit of the Capital Asset Inventory database to determine if the data at the station level reflect the actual utilization of VA’s assets. The outcome of this audit could affect our cost estimate.

# Appendix III: Comments from the Department of Veterans Affairs



THE SECRETARY OF VETERANS AFFAIRS  
WASHINGTON

August 14, 2008

U.S. GAO  
2008 JUN 15 AM 10:21

Mr. Mark Goldstein  
Director  
Physical Infrastructure  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Goldstein:

The Department of Veterans Affairs (VA) has reviewed your draft report, **FEDERAL REAL PROPERTY: Progress Made in Reducing Unneeded Property, but VA Needs Better Information to Make Further Reductions** GAO-08-939. VA officials appreciate the opportunity to comment.

VA concurs in principle with the majority of your recommendations. Our response highlights five areas of concern and provides additional focus on important distinctions. VA manages its portfolio of capital assets aggressively and the use of special authorities is critical to the success of our efforts. The continuing implementation of the Capital Asset Realignment for Enhanced Services (CARES) decisions, coupled with the site review initiative and other targeted projects, demonstrate that VA is taking appropriate steps to ensure a well-grounded strategy to managing its real property. Not only has VA made great strides in reducing its underutilized and vacant property inventory over the past 3 years, but significant initiatives are underway.

The enclosures provide details and context to address VA's concerns. The enclosures are: VA's five key points of disagreement; a listing of VA's fiscal years 2008 to 2012 planned disposals; VA's response to GAO's recommendations; and technical comments on the draft report.

Sincerely yours,

James B. Peake, M.D.

Enclosures

Enclosure

Department of Veterans Affairs (VA) Comments to  
Government Accountability Office (GAO) Draft Report  
**FEDERAL REAL PROPERTY: Progress Made in Reducing Unneeded  
Property, but VA Needs Better Information to Make Further Reductions**  
(GAO-08-939)

**Five Key Points of Disagreement Between VA and GAO**

Following is a brief summary of the five major points of disagreement between VA and GAO:

**1. Vacant space is double counted.**

GAO based its calculations throughout the draft report on a combination of underutilized and vacant square footage (sq ft), adding the two together. (For example, for fiscal year (FY) 2007 GAO used 11,604,885 sq ft of underutilized space plus 7,297,407 sq ft of vacant space for a total of more than 19 million sq ft.) This calculation is not correct. VA includes vacant square footage as a subset of its underutilized space. For the same FY, VA's underutilized and vacant space totaled 11,058,491 sq ft.

**2. Unit costs for operations and maintenance of underutilized space is overstated.**

VA and GAO differ in approach and methodologies used to estimate unit costs for operating and maintaining (O&M) underutilized space. No one in the Federal government links O&M costs to an accounting system by building. Instead, VA uses actual monthly costs at the station level and prorates these costs based on hours of operation and predominant use. This approach has been approved by Office of Management and Budget (OMB) and the Federal Real Property Council (FRPC). GAO developed an independent cost model for this report that produced a unit cost over \$14 more per sq ft than VA's approach. This resulted in a difference of close to \$222 million in the estimated total O&M costs for FY 2007 (GAO estimated \$307 million; VA prorated the same costs at \$85.2 million).

**3. VA does have valid cost information from which to make sound and prudent decisions.**

This report raises questions about VA's ability to develop "comprehensive, accurate, well-documented, and credible" annual cost estimates of the overhead expenses required to maintain our inventory of underutilized and vacant properties. In fact,

- a) VA reports prorated building costs to the FRPC annually based on an OMB approved methodology. The prorated costs are based on actual stations' costs and adjusted for hours of operation and predominant use.

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- b) VA maintains current year building level inventory, including square footage, type, condition, corrections costs and disposals (planned and actual).
- c) VA maintains historical inventory and financial data at the station level in VA's capital asset management system (CAMS) for FY 2005-2007, and the data is updated monthly.
- d) VA is developing requirements for a real property (asset level) cost accounting system that will replace VA's existing financial management system (FMS).

**4. VA does analyze data with respect to FRPC Tier 1 metrics (mission dependency, utilization, condition, cost).**

VA was instrumental in developing the disposal algorithm used by the Federal community. The algorithm is used to identify assets that are nonmission-dependent, underutilized, in poor condition, and with high costs as potential buildings for disposal. VA develops and updates a 5-year disposal plan annually and provides OMB with a quarterly report of disposals. This extensive plan is a key component of VA's short and long-term capital asset management strategy, yet it is omitted from GAO's report. Over the next 5 years, VA plans to dispose of 72 buildings and 1,118,653 sq ft based on FRPC Tier 1 metrics, using our disposal authorities. In short, VA is aware of its underutilized and vacant properties and is using numerous strategies to dispose of or find alternative uses for these capital assets.

**5. VA does track revenue generated, sq ft reductions and services received through agreements; however it is not done systematically or in a standard way across all agreement types.**

VA does track and can provide the amount of revenue generated for space and services at a local level, although the data is not systematically or uniformly entered across all agreement types in a single data system. Revenue generated through enhanced-use leasing, outleases, sharing and other partnership agreements are tracked using revenue source codes. VA provided GAO with the revenue generated through agreements from FY 2005-2007. Annual one-time payments included \$28 million in FY 2005 and \$22 million in FY 2006. Annual recurring revenue from outleased space generated \$1.4 million in FY 2005; \$.9 million in FY 2006; and \$1.1 million in FY 2007. VA tracks, monitors and evaluates square foot reduction by building by disposal type. GAO received a list of FY 2005-2007 disposals and the list of FY 2008-2012 planned disposals is attached. VA will redouble its effort to



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ensure that data is captured consistently and uniformly, especially for services received through agreements. The new accounting system is being designed in part to track real property asset level costs and capture more uniformly all revenues generated.

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**Responses to GAO Recommendations**

**Recommendation 1:** To provide VA with an accurate picture of what it spends annually on maintaining underutilized and vacant property and a benchmark from which to work in decreasing these costs, develop an annual cost estimate for how much it spends on underutilized and vacant property, so that the estimate is comprehensive, accurate, well-documented, and credible.

**Concur—** Over the last 3 years, VA has focused its efforts on reducing the amount of underutilized and vacant buildings and land parcels in its real property inventory. VA has developed a 5-year disposal plan that identifies 460 properties for disposal over the next 5 fiscal years. The 5-year plan includes eliminating 72 specific properties using our disposal authorities. VA has also identified 49 sites through its site review initiative to develop as transitional housing for homeless veterans. VA uses a combination of actual prorated operational and maintenance costs and a disposal algorithm as a basis for making well-informed capital asset management and disposal decisions. VA has the strategies and plans in place to continue monitoring and taking action to reduce its real property inventory. VA will, however, investigate the use of additional estimating tools and commercial benchmarks.

**Recommendation 2:** Collect and maintain building-level data by fiscal year in order to correlate characteristics associated with underutilized and vacant buildings which may help to identify unneeded assets.

**Non Concur—** VA collects and analyzes a significant amount of data at the station and building level. VA is in full compliance with all reporting requirements of the Office of Management and Budget, the President's Management Agenda Initiative on Federal Real Property Asset Management, and the Federal Real Property Council at both the station and building levels. In addition, VA already identifies unneeded assets using a disposal algorithm and targeted programs such as the site review initiative and implementation of the Capital Asset Realignment for Enhanced Services (CARES) decisions.

**Recommendation 3:** When recording new agreements, as of fiscal year 2008, track, monitor, and evaluate square footage reductions and financial and non-financial benefits.

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**Concur—** VA records information on all types of agreements. We agree with the need to improve the consistency of data on some types of agreements, especially sharing agreements, and to report in a more centralized manner. VA will work to make these improvements.

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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

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## Staff Acknowledgments

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