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The Honorable Bob Franks
Chairman, Subcommittee on Economic Development,
Public Buildings, Hazardous Materials and
Pipeline Transportation
Committee on Transportation and Infrastructure
House of Representatives

Subject: Federal Real Property Management: Answers to Hearing Questions

Dear Mr. Chairman:

This letter responds to your request for additional information related to the April 29, 1999, joint hearing on federal real property management held by your Subcommittee and the Subcommittee on Government Management, Information, and Technology, House Government Reform Committee. Accordingly, we are also providing a copy of this letter to Representatives Stephen Horn, Chairman, and Jim Turner, Ranking Minority Member, Subcommittee on Government Management, Information and Technology; and Representative Robert E. Wise, Jr., Ranking Minority Member, Subcommittee on Economic Development, Public Buildings, Hazardous Materials, and Pipeline Transportation. We will make copies available to others on request.

As agreed with your office, our responses are based on our prior work on asset management issues as well as additional information we obtained from the agencies that we reviewed during our review of public-private partnerships.[1] These agencies included the National Park Service within the Department of the Interior, the Department of Veterans Affairs (VA), and the U.S. Postal Service. We also coordinated with the National Research Council (NRC) of the National Academy of Sciences, the General Services Administration (GSA), The National Trust for Historic Preservation, and selected private sector asset management experts who are experienced in conducting partnerships with the public sector.

[1] Public-Private Partnerships: Key Elements of Federal Building and Facility Partnerships (GAO/GGD-99-23, Feb. 3, 1999).

If you have any further questions or would like to discuss any of these issues in more detail, please call me or Donald L. Bumgardner at (202) 512-8676. Peter J. Del Toro was a major contributor to this letter.

Sincerely yours,

J. Christopher Mihm
Associate Director, Federal Management
and Workforce Issues

Enclosure

Answers to Questions Regarding Federal Real Property Management

1(a). As a rule, would GAO advocate a more uniform management of government owned real property?

Yes. As we and others have reported,[1] despite some recent progress on the issue, the federal government lacks a uniform approach toward the management of its capital assets. Moreover, the capital decisionmaking and planning that does take place often is not done in a systematic manner as part of the organization's larger strategic planning process.

In July 1997, the Office of Management and Budget (OMB) issued the Capital Programming Guide—a supplement to OMB Circular A-11—which provides detailed guidance to federal agencies on planning, budgeting, acquisition, and management of capital assets. This guidance ranges from information on linking capital decisions to strategic goals and objectives, to analyzing and ranking potential investments, to making informed decisions based on the full cost and risk of a project. We participated in the development of the Capital Programming Guide and conducted extensive research to identify leading practices in capital decisionmaking used by state and local governments and private sector organizations. We provided OMB with examples for inclusion in the second version of the Capital Programming Guide and produced an Executive Guide summarizing 12 fundamental practices that have been successfully implemented by organizations recognized for their outstanding capital decisionmaking practices.[2]

The framework set out in our Executive Guide consists of a systematic approach to capital decisionmaking and management that could be effectively applied in agencies throughout the federal government. The framework contains the following 5 general principles and 12 associated practices that leading state, municipal, and private organizations have used to make capital investment decisions:

[1] See, for example, VA Healthcare: Capital Asset Planning and Budgeting Needs Improvement (GAO/T-HEHS-99-83, Mar. 10, 1999); Stewardship of Federal Facilities: A Proactive Strategy for Managing the Nation's Public Assets, National Research Council, Oct. 1998; National Park Service: Efforts to Identify and Manage the Maintenance Backlog (GAO/RCED-98-143, May 14, 1998); Portfolio Investment Initiative Pilot Program, General Services Administration, Apr. 1998; Deferred Maintenance Reporting: Challenges to Implementation (GAO/AIMD-98-42, Jan. 30, 1998); Governmentwide Review of Real Property Disposal Policy, General Services Administration, Aug. 15, 1997; Deferred Maintenance: Reporting Requirements and Identified Issues (GAO/AIMD-97-103R, May 23, 1997); Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operating Costs (GAO/NSIAD-97-125, May 13, 1997); Committing to the Cost of Ownership: Maintenance and Repair of Public Buildings, National Research Council, 1990.

[2] Executive Guide: Leading Practices in Capital Decisionmaking (GAO/AIMD-99-32, Dec. 1998).

Principle I: Integrate organizational goals into the capital decisionmaking process.

Practices:

- Conduct comprehensive assessment of needs to meet results-oriented goals and objectives.
- Identify current capabilities, including the use of an inventory of assets and their condition, and determine if there is a gap between current and needed capabilities.
- Decide how best to meet the gap by identifying and evaluating alternative approaches.

Principle II: Evaluate and select capital assets using an investment approach.

Practices:

- Establish, review, and approve a framework supported by analyses.
- Rank and select projects based on established criteria.
- Develop a long-term capital plan that defines capital asset decisions.

Principle III: Balance budgetary control and managerial flexibility when funding capital projects.

Practices:

- Budget for projects in useful segments.
- Consider innovative approaches to full up-front funding.

Principle IV: Use project management techniques to optimize project success.

Practices:

- Monitor project performance and establish incentives for accountability.
- Use cross-functional teams to plan for and manage projects.

Principle V: Evaluate results and incorporate lessons learned into the decision-making process.

Practices:

- Evaluate results to determine if organizationwide goals have been met.
- Evaluate the decisionmaking process: reappraise and update to ensure that goals are met.

1(b). Do you consider the dispersion of ownership as a weakness in effective management of real property?

No. We see no reason why agencies cannot effectively manage their own properties when it is done under a strategic framework based on best practices and accompanied by good financial management, effective accountability mechanisms, and appropriate congressional oversight. In our opinion, the dispersion or centralization of asset ownership does not alone determine whether capital assets are likely to be managed effectively. Much more important is whether agencies are actively applying the "best practice" principles and practices discussed above.

In fact, while we recognize that the dispersion of real property responsibility has created some fragmentation in the way the federal government manages its assets, dispersion of responsibility to various agencies allows for flexibility that can produce innovations which, if effective, can be considered for possible replication by other agencies.

2(a). You identified four weaknesses in the area of management and maintenance of federal facilities: lack of planning, deferred maintenance, accumulation of underutilized and unneeded properties, and lack of adequate data. How should the government address each of these weaknesses?

These are long-standing problems that we and others have reported on for several years. Improvement in agencies' efforts to address major asset management challenges is essential if federal agencies are to achieve their expected operating results in an economical and efficient manner. We believe that weaknesses regarding deferred maintenance, accumulation of underutilized and unneeded properties, and lack of planning and adequate data are caused by (1) insufficient integration of capital asset planning and strategic planning, (2) lack of incentives to encourage federal managers to become better stewards of their assets, and (3) unmet human capital needs. We discuss these issues below.

<u>Insufficient Integration of Capital Asset Planning and Strategic Planning</u>

Statutory initiatives, such as the Federal Acquisition Streamlining Act (FASA) of 1994 and The Government Performance and Results Act of 1993 (Results Act) are intended in part to require agencies to think more strategically about capital assets.

As noted in our response to question 1(a), to help agencies integrate and implement these various requirements, OMB has added a new section to its annual budget preparation guidance (Circular A-11) requiring agencies to provide information about their major capital acquisitions and to submit a "capital asset plan and justification." This guidance is supplemented by OMB's <u>Capital Programming Guide</u>, which provides detailed steps on planning, budgeting, acquiring, and managing capital assets. Circular A-11 also includes guidance to agencies on linking annual performance plans to capital planning efforts. In its <u>Capital Programming Guide</u>, OMB encourages federal agencies to develop long-term "agency capital plans" as part of their capital planning process and to use these plans to develop a summary for their budget justifications, for congressional authorizations, and for justifications for appropriations to Congress.

We believe that agencies will give greater attention to the quality of these plans if they view them as being important to congressional and other decisionmakers. If oversight, authorization, and appropriations committees use agencies' capital plans when reviewing requests for capital, these committees will have better opportunities to assess whether agencies are thinking strategically about the use of capital assets and linking current planning to mission accomplishment.

Incentives May be Needed

As we and NRC pointed out in our April 29 testimonies, Congress may want to consider ways to provide agencies with incentives that will encourage them to be better managers of their assets. In our review, we found that a primary reason for an agency to enter into partnerships was the incentive to keep, for its own use, the revenue it would receive from the partnership.[3] Also, by monitoring project performance against cost, schedule, and technical performance goals, as well as establishing incentives to meet those goals, agencies can increase the likelihood that proper stewardship of federal assets will occur.

Unmet Human Capital Needs

Officials in the three agencies we reviewed during our public-private partnerships work told us that they had established organizational structures and acquired the necessary expertise to interact with private-sector partners to ensure effective partnership implementation. The officials said these organizational structures were each built with a team of employees experienced in facilities management. They said that if a team lacked needed expertise, the agencies would acquire that expertise through contract with the private sector.

Our work and that of others has found that the federal government has increasingly limited financial and staff resources to manage its real estate assets. No organization, whether it is a government, for-profit, or not-for-profit organization, can maximize its economy, efficiency, and effectiveness without having up-to-date, state-of-the-art human capital strategies that are integrated with its overall strategic plan.

[3] Currently, the general rule for most federal agencies is that all proceeds from the sale of federal land and buildings go either to the General Treasury or the Land and Water Conservation Fund. Under the Federal Property and Administrative Services Act of 1949, when an agency declares a piece of property excess, GSA generally tries to find another use for it at another agency or at the state or local government level. If GSA cannot find another taker, it is to declare the property surplus and sell it on the private market. Some federal agencies are exempt from this general property disposal rule.

2(b). Which area should the government address first?

There are several steps that both Congress and federal agencies can take in the short term. First, executive branch decisionmakers and Congress can make the most short-term progress by using the tools discussed above to integrate capital decisionmaking into program planning and mission accomplishment. To facilitate the strategic management and disposal of capital assets, agencies may need to consider the following techniques:

- consolidating office space in their own departments/agencies and/or with other agencies;
- mixed-use leasing (leasing some federally owned space to private-sector tenants)
- creating public-private partnerships; and
- divesting excess or surplus property to other agencies, state or local governments, or the private sector.

As we discussed in our recent partnership report, some of these measures may require Congress to enact special authorizing legislation to permit agencies to enter into these arrangements. With congressional approval that includes incentives and appropriate accountability mechanisms, all or a portion of revenues and/or savings generated through these efforts could be used to upgrade existing facilities or to better address core federal missions. Careful oversight will be needed to ensure that these funds comprise the most appropriate investment for the government as a whole.

3. You state on page 3 that buildings and land need to be strategically acquired, managed, and disposed of so that taxpayer's return on the investment is maximized. What does this mean? How do you define maximized?

Our most complete discussion of how capital assets can be strategically acquired, managed, and disposed of is set forth in the capital decisionmaking framework contained in our Executive Guide: Leading Practices in Capital Decisionmaking discussed above.

During our recent testimony before your Subcommittee, we used the term "maximized" to mean that the government's investment in a capital asset was providing taxpayers with the greatest possible return, in terms of usefulness for that investment in the context of the mission and goals of the agency involved.

For the most part, there are differences between the objectives of the federal government and the objectives of the private sector and, consequently, in the way they operate. If financial return were the only consideration, one would only be interested in selling or leasing to the highest bidder, with little concern about the way the asset may be used. However, for the public sector, an agency can be considered to be maximizing its investment even if the agency does not generate the greatest income possible for a particular property. For example, VA decided that it was not in its best interest to allow the development of a potentially more profitable lease for a high-priced hotel that serves alcohol on the grounds of its Houston, TX, medical center. VA felt that (1) a moderately priced hotel would better accommodate family and friends of VA patients and (2) an alcohol-free environment on the same grounds that house a VA alcohol treatment facility would better fit the core interests of the agency.

4. On page 5 of your statement you mention five key factors in implementing partnerships. Could a successful partnership take place without all five elements in place?

These five factors were common among the six successful projects we reviewed and appeared to be key to the projects' implementation. However, these elements may not be generalizable to partnerships in other federal agencies because they were derived from our review of a selected and limited number of cases.

5(a). What do you consider a successful partnership?

For a partnership to be successful, both parties benefit from combining and learning from each other's core competencies. An agency generally enters into the partnership to help it more efficiently, economically, and effectively meet its goals. More specifically, a successful partnership can also benefit in several ways, including

- exposure to new management and accounting systems;
- access to sophisticated technology;
- new and flexible financing (e.g., private-sector funding, increase in taxable income, user fees such as rent) that would otherwise be unavailable;
- cost savings due to all of the above; and
- delegation or sharing of risk and responsibility.

The private organization benefits by generating revenue in markets that were previously out of reach.

5(b). How would you measure the success or failure of a public-private partnership?

Any assessment of the success of a partnership would need to be based on several dimensions, including effectiveness, cost and efficiency, customer satisfaction, and project process. Based on what we know now, we would ask the following types of questions:

<u>Effectiveness of project questions</u>

- Does the space create an environment that is ultimately effective in helping the organization carry out its mission?

- Is the space sufficiently flexible to accommodate changes in technology, office/working space, and agency mission?

- Has there been consideration given to the future value of the asset? Have future "exit strategies" such as agency consolidation, leasing, or divestiture been considered?

Project cost and efficiency questions

- Did the project come in on time and on budget?

- Were precautions taken to ensure that the taxpayers' interests were protected in both the short and long term?

- Have the project's savings been documented?

Customer satisfaction questions

- Are the users/consumers/clients pleased?

- Were there serious contract disputes, protests, or legal action? When problems arose, how did the public and private sector partners resolve them?

Process-oriented questions

- Was the business plan generally followed?

- Have precautions been taken to mitigate risks such as environmental liability?

- Have proven practices and techniques, using appropriate technology and current information, been used?

- Was there proper "due diligence" exercised under the law? Were fair business judgments made?

- Were cost benefit analyses conducted to determine the project's true needs and likely impacts?

- Does the agency recognize and reward managers and staff that achieve high levels of performance regarding projects such as partnerships?

While substantial, clearly this list of questions is not exhaustive. The issues of how one should assess the success of these types of arrangements as well as how past partnerships have fared when compared to these criteria may benefit from additional analysis in the future.

6. Please define underutilized property.

The Federal Property Management Regulations define "underutilized" property in the following way:

"An entire property or portion thereof, with or without improvements, which is used only at irregular periods or intermittently by the accountable landholding agency for current program purposes of that agency, or which is used for current program purposes that can be satisfied with only a portion of the property."[4]

We provide some examples of underutilized property in our public-private partnership report. Our recent work has found various examples of underused infrastructure, including the following:

- We reported that unless VA reforms its capital asset management practices, the VA health care system will spend billions of dollars over the next 5 years on hundreds of unneeded buildings.[5] VA has agreed with our recommendation to downsize their medical facility portfolio by eliminating duplications and redundancies through consolidation of services and closure of unneeded facilities. This would allow VA to free funds for more ambulatory sites for care.

- The Department of Defense (DOD) contains excess, aging facilities and insufficient funding to maintain, repair, and update them. At the same time, other DOD officials are looking for reductions in infrastructure costs to free up funding for weapon system modernization.[6] For example, DOD estimated that it has about 23 percent excess base capacity.[7]

As NRC stated in its report, Stewardship of Federal Facilities, there are significant hidden costs in maintaining underutilized federal facilities. For example, as federal agencies downsize and eliminate staff positions, the reductions do not occur across the board but are

[4] Federal Property Management Regs, 41 CFR section 101-47.901.

[5] GAO/T-HEHS-99-83.

[6] Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operating Costs (GAO/NSIAD-97-125, May 13, 1997).

[7] Military Bases: Review of DOD's 1998 Report on Base Realignment and Closure (GAO/NSIAD-99-17, Nov. 13, 1998).

targeted to specific functions or programs. Thus, an agency program that was once staffed at a level requiring five floors in a building may now be staffed at a level requiring of two floors. This 60-percent reduction in space needs does not, however, directly translate into a proportionate reduction in maintenance and repair needs or operating costs. As long as the building is occupied, if a furnace or air-conditioning system breaks down, all of it has to be repaired regardless of whether it serves five floors or two. The integration of critical operating components (heating, plumbing, ventilation, electrical, fire, communications, and safety systems) usually requires that entire systems be maintained in good working order to protect workers' health, safety, welfare, and productivity. However, as discussed in our answer to question 2(b), agencies can explore a number of options, including leasing excess space, to reduce the cost of operating and maintaining their facilities.

7. In your testimony you mention "community pressure" associated with several of the projects. To what extent did community pressure hinder or help the intended project?

Sensitivity to community views and the need to obtain stakeholder support are often important aspects of an asset development, acquisition, demolition, or divestiture project. However, as our recent study of six public-private partnerships demonstrates, community pressure can play either a facilitating or an inhibiting role in the implementation of a partnership, depending on the particular case. This can be seen in the experiences of the following three partnerships discussed in our report:

- The National Park Service's projects at Fort Mason and at the Thoreau Center at the Presidio were both former military bases and contain many historic, but deteriorating, structures. However, a large number of buildings at both sites could not be torn down because of their historic significance. A Park Service study found that the unoccupied structures of the lower Fort Mason area had been subject to vandalism and general deterioration. In both cases, Park Service officials said that through strong lobbying efforts, the local community's business and civic leaders helped to influence the Department of the Interior's property management policies and use partnerships to better manage the parks' facilities. They said that the local community, which had a history of being actively involved with the operations of and decisionmaking for the two parks, did not want the two parks to become overly commercialized.

- The VA's legal authority to enter into Enhanced Use Leases (EULs) requires that public hearings be held on proposed partnerships to determine their possible impact on veteran services, local commerce, and the community. Hearings were held in both VA projects that we examined in our report. Veterans' service organizations and the local medical communities generally carry considerable influence in discussions about VA facilities. VA officials told us that they believed that the decision to create partnerships is facilitated by the fact that VA's organizational culture strongly favors keeping, rather than selling, existing properties.

- In the case of the Postal Service's Rincon Center project in San Francisco, community pressure initially worked against the creation of the partnership. Officials from both the private developer and the Postal Service had to overcome community and stakeholder concerns, including local requirements to provide low- and moderate-income housing and the need to fulfill the city's architectural requirements while preserving its historic character. These requirements constrained the construction options open to both the developer and the Postal Service and complicated the process of agreeing on the partnership.

8. What are the elements of a business plan? How did GAO evaluate these plans?

The business plans we reviewed generally addressed topics such as the responsibilities and risks that are to be undertaken by both the federal agency and the private partners. These plans typically included information on existing and projected marketplace conditions likely to affect the project and provided details on the project's financing. Some plans we examined, such as those used by VA, also contained information on community feedback and consultation, as required by applicable laws.

For the six partnerships reviewed in our report, we examined their business plans, planning documents, and contracts to identify common elements and compared them with what is allowable by law. We found that a detailed business plan (or a set of similar documents acting in this capacity) was prepared for each partnership. In our review and in discussions with public and private-sector partners officials, we also found that usually the agency's facilities management staff created these plans in close coordination with the project's private-sector partner and before formal partnership contracts were executed. Officials of the three agencies told us that the use of business plans helped them to make informed partnership decisions, made these decisions easier to justify to potential critics and to implement, and helped protect the government's interests.

9. In your opinion, how important is a statutory basis for these projects? Do you believe these projects could have been completed without specific legislation?

A statutory basis played a central role in the creation of each of the partnerships that we reviewed for our report. Perhaps most important, according to asset managers we spoke with, legislation was needed to create incentives that allowed the agencies to keep for their core missions some or all of the revenues received from the partnerships. In addition, according to asset managers we spoke with, many managers seemed to think that they needed a statutory basis to use nontraditional asset management practices and to manage assets in a more businesslike fashion. Some public and private sector asset managers told us that a statutory basis may also provide the private-sector partner with a certain degree of comfort in knowing that partnerships with the public sector are worth their effort in pursuing because they have an explicit legal basis. The key, according to public and private sector asset managers we spoke with, is crafting legislation that provides for congressional oversight and ensures accountability while at the same time giving the public and private partners the flexibility needed to negotiate a successful partnership.

10. Several of the projects you analyzed had historic preservation requirements. How does this requirement affect the business plan? The overall development? The cost?

According to public and private asset managers we spoke with, partnerships involving the restoration of historic properties can present special challenges. Sometimes the direct and indirect costs associated with this type of restoration and maintenance can be so high that potential private-sector partners choose to simply avoid taking on such projects, despite considerable tax incentives.[8] Federal asset managers told us that once a property is deemed to be historic and a determination is made regarding the exact level of preservation necessary, this criterion is included in the project's request for qualifications/request for proposals and eventually into the business plan.

However, estimating the costs of restoration, preservation, and operation can be a very complex undertaking. Public and private sector asset managers told us that costs vary greatly by project and every historic preservation effort is unique. In addition, GSA and the National Park Service told us that federal agencies do not keep good records on historic preservation costs. As a result, cost estimates often are not exact. Nonetheless, the cost estimates in the business plan generally include the capital improvement costs to restore and preserve the historic properties (such as making the properties more accessible to people with disabilities, replacing roofs, and removing lead-based paint or asbestos).

[8] The federal government encourages the preservation and rehabilitation of historic structures and other resources through the historic rehabilitation tax credit. Under this provision, developers are eligible for a 20-percent credit on rehabilitation expenses on approved historic properties. However, according to the National Trust for Historic Preservation (NTHP), as part of the 1986 tax-reform law, the overall tax incentives for rehabilitating historic buildings were considerably weakened. In addition to reducing the tax credit from 25 percent to 20 percent, the law imposed tougher rules on real-estate investment. This change according to statistics from NTHP and the National Park Service resulted in a considerable reduction in the number of historic rehabilitation projects between 1986 and 1993. The number of rehabilitation projects has only slightly improved since then.

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