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FEDERAL REAL PROPERTY

Further Actions Needed to Address Long-standing and Complex Problems

Statement of David M. Walker, Comptroller General of the United States

GAO

Accountability * Integrity * Reliability

GAO-05-848T

June 22, 2005

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Highlights

Highlights of GAO-05-848T, a testimony before the House Committee on Government Reform

Why GAO Did This Study

In January 2003, GAO designated federal real property as a high-risk area due to long-standing problems with excess and underutilized property, deteriorating facilities, unreliable real property data, and costly space challenges. Federal agencies were also facing many challenges protecting their facilities due to the threat of terrorism.

This testimony discusses the problems with federal real property, particularly those relating to excess and deteriorating property, and what needs to be done to address them.

What GAO Recommends

Since January 2003, some important efforts to address the problems have been initiated by the administration and executive agencies, including Presidential Executive Order 13327 on real property reform

The executive order is clearly a positive step. However, GAO believes there is still a need for a comprehensive, integrated transformation strategy for real property to build upon the executive order. More specifically, the additional step of developing a transformation strategy would provide decisionmakers with a road map of actions for addressing the underlying obstacles, for assessing progress governmentwide, and for enhancing accountability for related actions.

www.gao.gov/cgi-bin/getrpt?GAO-05-848T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Mark Goldstein at (202) 512-2834 or goldsteinm@gao.gov.

What GAO Found

The federal real property portfolio is vast and diverse—over 30 agencies control hundreds of thousands of real property assets worldwide, including facilities and land worth hundreds of billions of dollars. Unfortunately, many of these assets are no longer effectively aligned with, or responsive to, agencies' changing missions. Further, many assets are in an alarming state of deterioration; agencies have estimated restoration and repair needs to be in the tens of billions of dollars. Compounding these problems are the lack of reliable governmentwide data for strategic asset management, a heavy reliance on costly leasing, instead of ownership, to meet new needs, and the cost and challenge of protecting these assets against terrorism.

In February 2004, the President added the Federal Asset Management Initiative to the President's Management Agenda and signed Executive Order 13327. The order requires senior real property officers at specified executive branch departments and agencies to, among other things, prioritize actions needed to improve the operational and financial management of the agency's real property inventory. A new Federal Real Property Council at OMB has developed guiding principles for real property asset management and is also developing performance measures, a real property inventory database, and an agency asset management planning process. In addition to these reform efforts, some agencies such as the Departments of Defense (DOD) and Veterans Affairs (VA) have made progress in addressing long-standing federal real property problems. For example, DOD is preparing for a round of base realignment and closures in 2005. Also, in May 2004, VA announced a wide range of asset realignment decisions.

These and other efforts are positive steps, but it is too early to judge whether the administration's focus on this area will have a lasting impact. The underlying conditions and related obstacles that led to GAO's high-risk designation continue to exist. Remaining obstacles include competing stakeholder interests in real property decisions, various legal and budget-related disincentives to optimal, businesslike, real property decisions, and the need for better capital planning among agencies.

Examples of Vacant GSA, VA, and USPS Facilities

Sources (from left to right): Ernst & Young LLP, VA, and USPS.
From left to right: L. Mendel Rivers Building, Charleston, SC; former Main VA Hospital Building, Milwaukee, WI; former Main Post Office, Chicago, IL.

Mr. Chairman and Members of the Committee:

We welcome the opportunity to testify on the actions that are needed to address the long-standing and complex problems that led to our designation of federal real property as a high-risk area. As you know, at the start of each new Congress since 1999, we have issued a special series of reports, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. In January 2003, we designated federal real property a high-risk area as part of this series, and we issued an update on this area in January 2005.[1] My testimony is based on our January 2003 and January 2005 high-risk reports and other GAO reports on real property issues. My testimony focuses on the problems with federal real property, particularly those relating to excess and deteriorating property, and what needs to be done to address them.

Summary

As we reported in February 2005, the physical footprint of agencies is outmoded, which reflects the failure to take advantage of opportunities provided by new technology to modernize operations and the changing nature of agencies' missions.[2] More than 30 federal agencies control about $328 billion in real property assets worldwide, and maintain a "brick and mortar" buildings and/or office presence in 11 regions across the nation. But this organization and infrastructure reflects a business model and the technological and transportation environment of the 1950s. Many of these assets and organizational structures are no longer needed; others are not effectively aligned with, or responsive to, agencies' changing missions; and many assets are in an alarming state of deterioration, potentially costing taxpayers tens of billions of dollars to restore and repair. In addition, federal agencies face problems with their real property data and protecting their facilities due to the threat of terrorism.

Since our designation of this area as high-risk in January 2003, some important efforts to address these problems have been initiated by the

[1]GAO, *High-Risk Series: Federal Real Property*, GAO-03-122 (Washington, D.C.; Jan. 2003); the report on real property is a companion to GAO's 2003 high-risk update, GAO, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: Jan. 2003); and GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.; Jan. 2005); these reports are intended to help the new Congress focus its attention on the most important issues and challenges facing the federal government.

[2]GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-352T (Washington, D.C.; Feb. 16, 2005).

administration and executive agencies, including a Presidential Executive Order[3] on real property reform and the Office of Management and Budget's (OMB) development of guiding principles for real property asset management. The executive order is clearly a positive step. However, it has not been fully implemented, and further actions are necessary to address the underlying problems and related obstacles, including competing stakeholder interests in real property decisions and legal and budget-related disincentives to optimal, businesslike, real property decisions. GAO continues to believe that there is a need for a comprehensive transformation strategy for real property to build upon the executive order. More specifically, the additional step of developing a transformation strategy would provide decisionmakers with a road map of actions for addressing the underlying obstacles, assessing progress governmentwide, and for enhancing accountability for related actions.

If actions resulting from the transformation strategy and other efforts address the long-standing problems are effectively implemented, agencies will be better able to recover asset values, reduce operating costs, improve facility conditions, enhance security and safety, recruit and retain employees, and achieve mission effectiveness. Realigning the government's real property, taking into consideration the future federal role, likely organizational structure, geographic presence, and workplace needs, will be critical to improving the government's performance and ensuring accountability within expected resource limits.

The Federal Real Property Environment

The federal real property environment has many stakeholders and involves a vast and diverse portfolio of assets that are used for a wide variety of missions. Real property is generally defined as facilities; land; and anything constructed on, growing on, or attached to land. According to its fiscal year 2003 financial statements, the federal government currently owns billions of dollars in real property assets. The Department of Defense (DOD), U.S. Postal Service (USPS), the General Services Administration (GSA), and the Department of Veterans Affairs (VA) hold the majority of the owned facility space.

Federal real property managers operate in a complex and dynamic environment. Numerous laws and regulations govern the acquisition, management, and disposal of federal real property. The Federal Property

[3]Presidential Executive Order 13327, Feb. 6, 2004.

and Administrative Services Act of 1949, as amended (Property Act), and the Public Buildings Act of 1959, as amended, are the laws that generally apply to real property; and GSA is responsible for the acts' implementation.[4] Agencies are subject to these acts, unless they are specifically exempted from them, and some agencies may also have their own statutory authority related to real property. Agencies must also comply with numerous other laws related to real property.

The Federal Government Has Many Assets it Does Not Need

Despite significant changes in the size and mission needs of the federal government in recent years, the federal portfolio of real property assets in many ways still largely reflects the business model and technological environment of the 1950s and faces serious security challenges. In the last decade alone, the federal government has reduced its workforce by several hundred thousand personnel, and several federal agencies have had major mission changes. With these personnel reductions and mission changes, the need for existing space, including general-purpose office space, has declined overall and necessitated the need for different kinds of space. At the same time, technological advances have changed workplace needs, and many of the older buildings are not configured to accommodate new technologies. The advent of electronic government is starting to change how the public interacts with the federal government. These changes will have significant implications for the type and location of property needed in the 21st century. Furthermore, changes in the overall domestic security environment have presented an additional range of challenges to real property management that must be addressed.

One reason the government has many unneeded assets is that some of the major real property-holding agencies have undergone significant mission shifts that have affected their real property needs. For example, after the Cold War, DOD's force structure was reduced by 36 percent. Despite several rounds of base closures, DOD projects that it still has considerably more property than it needs. The National Defense Authorization Act for Fiscal Year 2002, gave DOD the authority for another round of base realignments and military installation closures in 2005.

[4]For the Property Act, see 40 U.S.C. § 101 et. seq.; the Property Act excludes certain types of property, such as public domain assets and land reserved or dedicated for national forest or national park purposes; for the Public Buildings Act, see 40 U.S.C. § 3301 et. seq.

In addition, various factors may significantly reduce the need for real property held by USPS. These factors include new technologies, additional delivery options, and the opportunity for greater use of partnerships and retail co-location arrangements. A July 2003 Presidential Commission report on USPS stated, among other things, that USPS had vacant and underutilized facilities that had little, if any, value to the modern-day delivery of the nation's mail.[5] In April 2005 we reported that USPS faces future financial challenges due to its declining First-Class Mail volume and has excess capacity in its current infrastructure that impedes efficiency gains.[6] USPS has stated that one way to increase efficiency is to realign its processing and distribution infrastructure.

In the mid-1990s, VA began shifting its role from being a traditional hospital-based provider of medical services to an integrated delivery system that emphasizes a full continuum of care with a significant shift from inpatient to outpatient services. Subsequently, VA has struggled to reduce its large inventory of buildings, many of which are underutilized or vacant.

The magnitude of the problem with underutilized or excess federal property puts the government at significant risk for wasting taxpayers' money and missed opportunities. First, underutilized or excess property is costly to maintain. DOD estimates that it is spending $3 billion to $4 billion each year maintaining facilities that are not needed. It is likely that other agencies that continue to hold excess or underutilized property are also incurring significant costs for staff time spent managing the properties and on maintenance, utilities, security, and other building needs. Second, in addition to day-to-day operational costs, holding these properties has opportunity costs for the government, because these buildings and land could be put to more cost-beneficial uses, exchanged for other needed property, or sold to generate revenue for the government. Finally, continuing to hold property that is unneeded does not present a positive image of the federal government in local communities. Instead, it presents an image of waste and inefficiency that erodes taxpayers' confidence in

[5]President's Commission on the United States Postal Service, *Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service* (Washington, D.C.: July 31, 2003).

[6]GAO, *U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability*, GAO-05-261 (Washington, D.C.: Apr. 8, 2005).

government. It also can have a negative impact on local economies if the property is occupying a valuable location and is not used for other purposes, sold, redeveloped, or used in a public-private partnership.

The Federal Portfolio Is in an Alarming State of Deterioration

Restoration, repair, and maintenance backlogs in federal facilities are significant and reflect the federal government's ineffective stewardship over its valuable and historic portfolio of real property assets. The state of deterioration is alarming because of the magnitude of the repair backlog—current estimates show that tens of billions of dollars will be needed to restore these assets and make them fully functional. This problem has accelerated in recent years because much of the federal portfolio was constructed over 50 years ago, and these assets are reaching the end of their useful lives. As with the problems related to underutilized or excess property, the challenges of addressing facility deterioration are also prevalent at major real property-holding agencies. In recent discussions, a GSA official said that its \$5.7 billion backlog, which we reported in 2003, has grown to between \$6 and \$7 billion.[7] In recognition of the importance of addressing deferred maintenance, federal accounting standards require agencies to report deferred maintenance as supplementary information in their financial statements. As of September 30, 2004, the government's consolidated financial statements showed a deferred maintenance cost range of \$13.4 billion to \$25.3 billion for the asset category General Property, Plant, and Equipment—which includes federal real property.

Over the last decade, DOD reports that it has been faced with the major challenge of adequately maintaining its facilities to meet its mission requirements. In February 2003, we reported that although the amount of money the active forces have spent on facility maintenance had increased recently, DOD and service officials said that these amounts had not been sufficient to halt the deterioration of facilities.[8] Too little funding to adequately maintain facilities is also aggravated by DOD's acknowledged retention of facilities in excess of its needs.

[7]GAO-03-122.

[8]GAO, *Defense Infrastructure: Changes in Funding Priorities and Strategic Planning Needed to Improve the Condition of Military Facilities*, GAO-03-274 (Washington, D.C.: Feb. 19, 2003).

Our work over the years has shown that the deterioration problem leads to increased operational costs, has health and safety implications that are worrisome, and can compromise agency missions. In addition, we have reported that the ultimate cost of completing delayed repairs and alterations may escalate because of inflation and increases in the severity of the problems caused by the delays.[9] As discussed above, the overall cost could also be reduced by government realignment. That is, to the extent that unneeded property is also in need of repair, disposing of such property could reduce the repair backlog. Another negative effect, which is not readily apparent but nonetheless significant, is the effect that deteriorating facilities have on employee recruitment, retention, and productivity. This human capital element is troublesome because the government is often at a disadvantage in its ability to compete in the job market in terms of the salaries agencies are able to offer. Poor physical work environments exacerbate this problem and can have a negative impact on potential employees' decisions to take federal positions. Furthermore, research has shown that quality work environments make employees more productive and improve morale. Finally, as with excess or underutilized property, deteriorated property presents a negative image of the federal government to the public. This is particularly true when many of the assets the public uses and visits the most—such as those at national parks and museums—are not well maintained or in generally poor condition.

Other Long-standing Problems Continue to Exist

As we reported in October 2003, in addition to the difficulties with excess and deteriorated property, the federal government faces other long-standing real property-related problems.[10] For example, there is a lack of reliable and useful real property data that are needed for strategic decision-making. In April 2002, we reported that the government's only central source of descriptive data on the makeup of the real property inventory, GSA's worldwide inventory database and related real property reports, contained data that were unreliable and of limited usefulness.[11] GSA agreed with our findings and has revamped this database and

[9] GAO, *Federal Buildings: Funding Repairs and Alterations Has Been a Challenge—Expanded Financing Tools Needed*, GAO-01-452 (Washington, D.C.; Mar. 20, 2001).

[10] GAO, *Federal Real Property: Actions Needed to Address Long-standing and Complex Problems*, GAO-04-119T (Washington, D.C.: Oct. 1, 2003).

[11] GAO, *Federal Real Property: Better Governmentwide Data Needed for Strategic Decisonmaking*, GAO-02-342 (Washington, D.C.: Apr. 16, 2002).

produced a new report on the federal inventory; we have not evaluated GSA's revamped database and related report. In addition to the problems with the worldwide inventory, in February 2005, we reported that as in the 7 previous fiscal years, certain material weaknesses[12] in internal control and in selected accounting and financial reporting practices resulted in conditions that continued to prevent us from being able to provide an opinion as to whether the consolidated financial statements of the U.S. government were fairly stated in conformity with U.S. generally accepted accounting principles.[13] We have reported that because the government lacked complete and reliable information to support asset holdings—including real property—it could not satisfactorily determine that all assets were included in the financial statements, verify that certain reported assets actually existed, or substantiate the amounts at which they were valued.

In addition to problems with unreliable real property data, the government continues to rely on costly leasing for much of its space needs. As a general rule, building ownership options through construction or purchase are the least expensive ways to meet agencies' long-term and recurring requirements for space. Lease-purchase—under which payments are spread over time and ownership of the asset is eventually transferred to the government—are generally less costly than using ordinary operating leases to meet long-term space needs.[14] However, over the last decade, we have reported that GSA—as the central leasing agent for most agencies—relies heavily on operating leases to meet new long-term needs because it lacks funds to pursue ownership. Operating leases have become an attractive option in part because they generally look cheaper in any given year, even though they are generally more costly over time. Budget scorekeeping rules allow these costly operating leases to look cheaper in the short term and have encouraged an overreliance on them for satisfying long-term space needs. Finding a solution for this problem has been difficult; however, change is needed because the current practice of

[12]A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis.

[13]GAO, *Fiscal Year 2004 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Future Fiscal Challenge*, GAO-05-284T (Washington, D.C.: Feb 9, 2005).

[14]In an operating lease, the government makes periodic lease payments over the specified length of the lease in exchange for the use of the property.

relying on costly leasing to meet long-term space needs results in excessive costs to taxpayers and does not reflect a sensible or economically rational approach to capital asset management.

Federal agencies also face challenges in protecting their facilities due to the threat of terrorism. Terrorism is a major threat to federally owned and leased real property, the civil servants and military personnel who work in them, and the public who visits them. This was evidenced by the 1995 Oklahoma City bombing; the 1998 embassy bombings in Africa; the September 11, 2001, attacks on the World Trade Center and Pentagon; and the anthrax attacks in the fall of 2001. Since the 2001 attacks, the focus on security in federal buildings has been heightened considerably. Real property-holding agencies are employing such measures as searching vehicles that enter federal facilities, restricting parking, and installing concrete bollards. As the government's security efforts intensify, the government will be faced with important questions regarding the level of security needed to adequately protect federal facilities and how the security community should proceed.

Various Efforts Initiated, but Real Property Problems Persist Due to Factors that Require Attention

In February 2004, the President added the Federal Asset Management Initiative to the President's Management Agenda and signed Executive Order 13327 to address challenges in this area. The order requires senior real property officers at specified executive branch departments and agencies[15] to, among other things, develop and implement an agency asset management plan; identify and categorize all real property owned, leased, or otherwise managed by the agency; prioritize actions needed to improve the operational and financial management of the agency's real property inventory; and make life-cycle cost estimations associated with the prioritized actions. In addition, the senior real property officers are responsible, on an ongoing basis, for monitoring the real property assets of the agency. The order also established a new Federal Real Property Council (the Council) at OMB.

In April 2005, OMB officials updated us on the status of the implementation of the executive order. According to these officials, all of the senior real property officers are in place, and the Council has been working to identify common data elements and performance measures to

[15]See 31 U.S.C. § 901(b) (1) and (b) (2) for a list of the executive branch departments and agencies required to establish a senior real property officer.

be captured by agencies and ultimately reported to a governmentwide database. In addition, OMB officials reported that agencies are working on their asset management plans. Plans for the DOD, VA, Energy, and GSA have been completed and approved by OMB. The Council has also developed guiding principles for real property asset management. These guiding principles state that real property asset management must, among other things, support agency missions and strategic goals, use public and commercial benchmarks and best practices, employ life-cycle cost-benefit analysis, promote full and appropriate utilization, and dispose of unneeded assets.

In addition to these reform efforts, Public Law 108-447 gave GSA the authority to retain the net proceeds from the disposal of federal property for fiscal year 2005 and to use such proceeds for GSA's real property capital needs. Also, Public Law 108-422 established a capital asset fund and gave VA the authority to retain the proceeds from the disposal of its real property for the use of certain capital asset needs such as demolition, environmental clean-up, repairs, and maintenance to the extent specified in appropriations acts. And, agencies such as DOD and VA have made progress in addressing long-standing federal real property problems and governmentwide efforts in the facility protection area are progressing. For example:

- VA has established a process called Capital Asset Realignment for Enhanced Services (CARES) to address its aging and obsolete portfolio of health care facilities. In March 2005, we reported that through CARES, VA identified 136 locations for evaluation of alternative ways to align inpatient services—99 facilities had potential duplication of services with another nearby facility or low acute patient workload.[16] VA made decisions to realign inpatient health care services at 30 of these locations. For example, it will close all inpatient services at 5 facilities. VA's decisions on inpatient alignment and plans for further study of its capital asset needs are tangible steps in improving management of its capital assets and enhancing health care. Accomplishing its goals, however, will depend on VA's success in completing its evaluations and implementing its CARES decisions to ensure that resources now spent on unneeded capital assets are redirected to health care.

[16] GAO, *VA Health Care: Important Steps Taken to Enhance Veterans' Care By Aligning Inpatient Services with Projected Needs*, GAO-05-160 (Washington, D.C.: Mar. 2, 2005).

- In DOD's support infrastructure management area, which we identified as high-risk in 1997, DOD has made progress and expects to continue making improvements. In May 2005, we testified that DOD implemented the recommendations from the previous BRAC rounds within the 6-year period mandated by law.[17] As a result, DOD estimated that it reduced its domestic infrastructure by about 20 percent, as measured by the cost to replace the property; about 90 percent of unneeded BRAC property is now available for reuse. Substantial net savings of approximately $29 billion have been realized over time. DOD's expectations for the 2005 BRAC round include further eliminating unneeded infrastructure and achieving savings. It also expects to use BRAC to further transformation and related efforts such as restationing of troops from overseas as well as efforts to further joint basing among the military services. The results of the 2005 BRAC round will be known later this year, once the legislatively mandated Defense Base Closure and Realignment Commission completes its work and its recommendations are considered by the President and the Congress.

- In light of the need to invest in facility protection since September 11, 2001, funding available for repair and restoration and preparing excess property for disposal may be further constrained. The Interagency Security Committee (ISC), which is chaired by the Department of Homeland Security (DHS), is tasked with coordinating federal agencies' facility protection efforts, developing standards, and overseeing implementation. In November 2004, we reported that ISC had made progress in coordinating the government's facility protection efforts by, for example, developing security standards for leased space and design criteria for security in new construction projects. Despite this progress, we found that its actions to ensure compliance with security standards and oversee implementation have been limited. Nonetheless, the ISC serves as a forum for addressing security issues, which can have an impact on agencies' efforts to improve real property management.

The inclusion of real property asset management on the President's Management Agenda, the executive order, and agencies' actions are clearly positive steps in an area that had been neglected for many years. However, despite the increased focus on real property issues in recent years, the underlying conditions—such as excess and deteriorating properties and costly leasing—continue to exist and more needs to be

[17] GAO, *Military Base Closures: Observations on Prior and Current BRAC Rounds*, GAO-05-614 (Washington, D.C.: May 3, 2005).

done to address various obstacles that led to our high risk designation. For example, the problems have been exacerbated by competing stakeholder interests in real property decisions, various legal and budget related disincentives to businesslike outcomes, and the need for better capital planning among real property-holding agencies.

More specifically:

- Competing Stakeholder Interests - In addition to Congress, OMB, and the real property-holding agencies themselves, several other stakeholders also have an interest in how the federal government carries out its real property acquisition, management, and disposal practices. These include foreign and local governments; business interests in the communities where the assets are located; private sector construction and leasing firms; historic preservation organizations; various advocacy groups; and the public in general, which often views the facilities as the physical face of the federal government in local communities. As a result of competing stakeholder interests, decisions about real property often do not reflect the most cost-effective or efficient alternative that is in the interests of the agency or the government as a whole but instead reflect other priorities.

- Legal and Budgetary Disincentives -The complex legal and budgetary environment in which real property managers operate has a significant impact on real property decisionmaking and often does not lead to economically rational and businesslike outcomes. For example, we have reported that public-private partnerships might be a viable option for redeveloping obsolete federal property when they provide the best economic value for the government, compared with other options, such as federal financing through appropriations or sale of the property. Resource limitations, in general, often prevent agencies from addressing real property needs from a strategic portfolio perspective. When available funds for capital investment are limited, Congress should weigh the need for new, modern facilities with the need for renovation, maintenance, and disposal of existing facilities, the latter of which often gets deferred. In the disposal area, a range of laws intended to address other objectives—such as laws related to historic preservation and environmental remediation—makes it challenging for agencies to dispose of unneeded property.

- Need for Improved Capital Planning - Over the years, we have reported that prudent capital planning can help agencies to make the most of limited resources, and failure to make timely and effective capital acquisitions can result in increased long-term costs. GAO, Congress, and

OMB have identified the need to improve federal decisionmaking regarding capital investment. Our Executive Guide,[18] OMB's *Capital Programming Guide*, and its revisions to *Circular A-11* have attempted to provide guidance to agencies for making capital investment decisions. However, agencies are not required to use the guidance. Furthermore, agencies have not always developed overall goals and strategies for implementing capital investment decisions, nor has the federal government generally planned or budgeted for capital assets over the long term.

As you know, GSA is required by law to charge agencies for renting space in federal office buildings, courthouses, and other assets GSA owns. The rental receipts are deposited into the Federal Buildings Fund (FBF), a revolving fund used to fund GSA real property services, including space acquisition and asset management for federal facilities that are under GSA's control. Over the years, there have been various efforts to restrict or exempt agencies from paying rent to GSA for some or all of their space. This, however, can have a negative impact on the government's ability to "re-invest" in its portfolio. Currently, the federal judiciary is seeking such an exemption. This is a very important issue, since it would serve to provide a precedent with significant governmentwide implications.

More specifically, GSA has historically been unable to generate sufficient revenue through FBF and has thus struggled to meet the requirements for repairs and alterations identified in its inventory of owned buildings. We reported in 2003 that the estimated backlog of repairs had reached $5.7 billion, and consequences included poor health and safety conditions, higher operating costs, restricted capacity for modern information technology, and continued structural deterioration. Restrictions imposed on the rent GSA could charge federal agencies have compounded the agency's inability to address its backlog in the past. Consequently, we recommended in 1989 that Congress remove all rent restrictions and not mandate any further restrictions, and most rent restrictions have been lifted. The GSA Administrator has the authority to grant rent exemptions, and all of the current exemptions are limited to single buildings or were granted for a limited duration. Together, these current exemptions represent about $170 million, a third of the $483 million permanent exemption the judiciary is requesting from GSA. The judiciary has

[18] GAO, *Executive Guide: Leading Practices in Capital Decision-making*, GAO/AIMD-99-32 (Washington, D.C.: Dec. 1998).

requested the exemption, equal to about half of its annual rent payment, because of budget problems that it believes its growing rent payments have caused. GSA data show that one reason the judiciary's rent is increasing is that the space it occupies is also increasing. We are currently studying the potential impact of such an exemption on FBF, however our past work shows that rent exemptions were a principal reason why FBF has accumulated insufficient money for capital investment.

A Transformation Strategy Is Needed

The magnitude of real property-related problems and the complexity of the underlying factors that cause them to persist put the federal government at significant risk in this area. Real property problems related to unneeded property and the need for realignment, deteriorating conditions, unreliable data, costly space, and security concerns have multibillion-dollar cost implications and can seriously jeopardize mission accomplishment. Because of the breadth and complexity of the issues involved, the long-standing nature of the problems, and the intense debate about potential solutions that will likely ensue, current structures and processes may not be adequate to address the problems. In addition, a governmentwide perspective regarding the extent of excess or underutilized space, deferred maintenance, and the costs of real property would improve transparency. That is, all stakeholders would know the condition of the problem and overall, the government could better manage its real property. Given this, we concluded in our high-risk report and in our update in January 2005, and still believe that a comprehensive and integrated transformation strategy for federal real property is needed. Such a strategy could build upon the executive order by providing decisionmakers with a road map of actions for addressing the underlying obstacles, assessing progress governmentwide, and for enhancing accountability for related actions. Based on input from agencies, the private sector, and other interested groups, the strategy could comprehensively address these long-standing problems with specific proposals on how best to

- realign the federal infrastructure and dispose of unneeded property, taking into account mission requirements, changes in technology, security needs, costs, and how the government conducts business in the 21st century;
- address the significant repair and restoration needs of the federal portfolio;

- ensure that reliable governmentwide and agency-specific real property data—both financial and program related—are available for informed decisionmaking;
- resolve the problem of heavy reliance on costly leasing; and
- consider the impact that the threat of terrorism will have on real property needs and challenges, including how to balance public access with safety.

To be effective in addressing these problems, it would be important for the strategy to focus on

- minimizing the negative effects associated with competing stakeholder interests in real property decisionmaking;
- providing agencies with appropriate tools and incentives that will facilitate businesslike decisions—for example, consideration should be given to what financing options should be available; whether agencies should keep some of the disposal proceeds to recoup the costs of preparing properties for disposal; what process would permit comparisons between rehabilitation/renovation and replacement and among construction, purchase, lease-purchase, and operating lease; and how public-private partnerships should be evaluated;
- addressing federal human capital issues related to real property by recognizing that real property conditions affect the federal government's ability to attract and retain high-performing individuals and the productivity and morale of employees;
- improving real property capital planning in the federal government by helping agencies to better integrate agency mission considerations into the capital decision-making process, make businesslike decisions when evaluating and selecting capital assets, evaluate and select capital assets by using an investment approach, evaluate results on an ongoing basis, and develop long-term capital plans; and
- ensuring credible, rational, long-term budget planning for facility sustainment, modernization, or recapitalization.

The transformation strategy should also reflect the lessons learned and leading practices of organizations in the public and private sectors that have attempted to reform their real property practices. Over the past decade, leading organizations in both the public and private sectors have been recognizing the impact that real property decisions have on their overall success. For example, we at GAO are currently leasing space to the U.S. Army Corps of Engineers to better utilize our space, generate revenue, and reduce the Corps' need to lease space from the private sector. The revenue we receive provides us with an incentive to efficiently manage our space. Better managing real property assets in the current environment calls for a significant departure from the traditional way of doing business. Solutions should not only correct the long-standing problems we have identified but also be responsive to and supportive of agencies' changing missions, security concerns, and technological needs in the 21st century. If actions resulting from the transformation strategy comprehensively address the problems and are effectively implemented, agencies will be better positioned to recover asset values, reduce operating costs, improve facility conditions, enhance safety and security, recruit and retain employees, and achieve mission effectiveness.

In addition to developing a transformation strategy, it is critical that all the key stakeholders in government—Congress, OMB, and real property-holding agencies—continue to work diligently on the efforts planned and already under way that are intended to promote better real property capital decisionmaking, such as enacting reform legislation, assessing infrastructure and human capital needs, and examining viable funding options. Congress and the administration could continue to work together to develop and enact additional reform legislation to give real property-holding agencies the tools they need to achieve better outcomes, foster a more businesslike real property environment, and provide for greater accountability for real property stewardship. These tools could include, where appropriate, the ability to retain a portion of the proceeds from disposal and the use of public-private partnerships in cases where they represent the best economic value to the government. Congress and the administration could also elevate the importance of real property in policy debates and recognize the impact that real property decisions have on agencies' missions.

Regarding this Committee's draft legislation known as the "Federal Real Property Disposal Pilot Program and Management Improvement Act of 2005," we believe that the objectives of the legislation and several of its provisions have strong conceptual merit. For example, it would establish a pilot program for the expedited disposal of excess, surplus, or underutilized real property assets identified and would enact many of the requirements of Executive Order 13227 into law. In particular, pursuing this pilot program, as outlined in Title I, would allow for assessing lessons learned and help determine the merits of the program and whether it should continue. Furthermore, making the requirements of the executive order law, as outlined in Title II, would serve to elevate their importance and show that Congress and the administration are unified in pursuing real property reform. We would respectfully suggest that the Committee give consideration to including a requirement that a transformation strategy for federal real property be developed, as we have recommended.

Solving the problems in this area will undeniably require a reconsideration of funding priorities at a time when budget constraints will be pervasive. Without effective incentives and tools; top management accountability, leadership, and commitment; adequate funding; full transparency with regard to the government's real property activities; and an effective system to measure results, long-standing real property problems will continue and likely worsen. However, the overall risk to the government and taxpayers could be substantially reduced if an effective transformation strategy is developed and successfully implemented, reforms are made, and property-holding agencies effectively implement current and planned initiatives. Since our high-risk report was issued, OMB has informed us that it is taking steps to address the federal government's problems in the real property area. Specifically, it has established a new Federal Real Property Council to address these long-standing issues. To assist OMB with its efforts, we have agreed to meet regularly to discuss progress and have provided OMB with specific suggestions on the types of actions and results that could be helpful in justifying the removal of real property from the high-risk list.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions you or other Members of the Committee may have at this time.

Contacts and Acknowledgements

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