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FEDERAL REAL PROPERTY

Current Efforts, GAO Recommendations, and Proposed Legislation Could Address Challenges

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GAO Highlights

Highlights of GAO-15-688T, a testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The federal government's real property holdings are vast and diverse, costing billions of dollars annually to operate and maintain. GAO added federal real property management to its High-Risk List in 2003 because the government retained more property than it needed, relied on leasing in cases where ownership would cost less, and lacked reliable real property data to support decision making. Since then, the government has given high-level attention to the issue, including establishing FRPP to track federal buildings and structures governmentwide. Despite these efforts, federal agencies continue to face challenges in managing federal real property. This statement focuses on (1) improvements and challenges in federal real property management; and (2) executive and legislative steps that could help address challenges.

This statement draws from previous GAO reports issued between June 2012 and February 2015 and recent interviews with OMB and GSA officials.

View GAO-15-688T. For more information, contact Dave Wise at (202) 512-2834 or wised@gao.gov.

What GAO Found

In recent years, the federal government has taken steps to improve the management of its real property and current efforts show promise. However, the issue is still on GAO's High-Risk List because the underlying challenges remain. Recent reform efforts include two from the Office of Management and Budget (OMB):

- The 2012 "Freeze the Footprint" policy, which instructed agencies to keep the total square footage of their domestic office and warehouse inventory at a baseline level established using the Federal Real Property Profile (FRPP), a database that GSA developed to manage executive branch agencies' real property data.
- The 2015 National Strategy for the Efficient Use of Real Property for 2015-2020 that included a similarly named "Reduce the Footprint" policy. In this effort, OMB introduced a new policy framework intended to measure the cost and utilization of individual assets and identify opportunities to reduce the portfolio through asset disposal to increase efficiency.

Despite these recent strides, the federal government continues to retain excess and underutilized property, rely on leasing when ownership would be more cost effective, and utilize unreliable data for its property-related decision making.

GAO has made several prior recommendations related to real property management that, if implemented, could help address some of these challenges. Specifically, in recent years, GAO recommendations to GSA and OMB have included:

- taking specific steps to improve the reliability and usefulness of FRPP as a decision-making tool;
- articulating a clear strategy for its role in promoting effective and efficient practices in federal warehouse management throughout the government; and
- developing a 5-year capital plan to more fully consider and document agencies' investment choices.

In addition, several reform bills that have been introduced in recent years also could help to address certain issues. However, none have yet been enacted. For example, the Civilian Property Realignment Act (CPRA) could improve real property management by establishing an independent board to streamline the disposal process and grouping all disposal and consolidation recommendations into one proposal for Congress to consider in its entirety. Legislative reforms could also apply to the McKinney-Vento Homelessness Act, which introduced a process through which excess federal property is screened for potential transfer for use by homeless services providers. In 2014, GAO found that very few properties had been transferred to homeless service providers since the inception of the homelessness-assistance program created as a result of the Act and that many of the properties were not practical for homeless service providers to use. As a result, GAO suggested that Congress consider revisiting the property screening requirements under the Act.

Chairman Johnson, Ranking Member Carper, and Members of the Committee:

Thank you for the opportunity to discuss our work on how the federal government's real property management practices could be improved. The federal government's real property holdings are vast and diverse, costing billions of dollars annually to operate and maintain. The portfolio comprises hundreds of thousands of buildings—such as office buildings, storage warehouses, courthouses, hospitals, and laboratories—and a comparable number of permanent structures—such as roads, dams, and parking garages—across the country. In 2003, we added "Federal Real Property Management" to our biennial high-risk list because the federal government retained more property than it needed, relied on leasing in cases where ownership would be more cost effective in the long run, and lacked reliable real property data to support decision making.[1] In 2004, the President issued Executive Order 13327 establishing the Federal Real Property Council (FRPC), requiring it to work with the General Services Administration (GSA) to establish and maintain a single, comprehensive real property database.[2] This database was intended to describe the nature, use, and extent of all real property under the custody and control of executive branch agencies in order to promote the efficient and economical use of the nation's real property assets and assure management accountability for implementing reforms. The FRPC created the Federal Real Property Profile (FRPP) to meet this requirement and began collecting data in 2005.

Despite the implementation of the executive order and various reform efforts and proposals, agencies continue to face challenges managing real property. For this hearing, you asked us to discuss why federal real property management is on GAO's high-risk list and potential executive and legislative actions that could address longstanding challenges. My

[1]GAO, High-Risk Series: An Update, GAO-03-119 (Washington, D.C.: January 2003).

[2]Federal Real Property Asset Management, Exec. Order No.13327, 69 Fed. Reg. 5897 (Feb. 6, 2004). The executive order applies to executive branch agencies listed at 31 U.S.C. §901(b); the Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, the Interior, Justice, Labor, State, Transportation, the Treasury, and Veterans Affairs; the Environmental Protection Agency; the National Aeronautics and Space Administration; the U.S. Agency for International Development; GSA; the National Science Foundation; the Nuclear Regulatory Commission; the Office of Personnel Management; the Small Business Administration; and the Social Security Administration.

testimony today focuses on (1) improvements and challenges in federal real property management; and (2) executive and legislative steps that could help the government address these challenges. My remarks today are primarily based on prior GAO reports and testimonies issued between June 2012 and February 2015, including the 2015 update to our High-Risk Series and recent interviews with OMB and GSA staff to obtain updated information on federal efforts to improve real property management and address existing GAO recommendations. More detailed information about the scope and methodology of our prior work can be found in the reports listed at the end of this statement. We conducted the work this testimony is based on 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Federal Government Has Taken Steps to Improve Real Property Management but the Issue Remains on GAO's High-Risk List

Since federal real property management was placed on GAO's High-Risk List in 2003, the government has given the issue high-level attention. In 2012, OMB introduced the "Freeze the Footprint" policy, instructing agencies to not increase the total square footage of their domestic office and warehouse inventory compared to their FRPP baseline for fiscal year 2012. In 2015, OMB issued its "National Strategy for the Efficient Use of Real Property for 2015-2020" and its "Reduce the Footprint" policy." The Reduce the Footprint policy requires agencies to (1) set annual square foot reduction targets for domestic federal buildings; and (2) adopt space design standards to optimize federal domestic office space usage. The National Strategy states that its policy framework is to (1) freeze growth in the real property portfolio, (2) measure performance to support more efficient use; and (3) reduce the size of the portfolio through asset consolidation, co-location, and disposal. The Reduce the Footprint policy requires that agencies submit their final plan to OMB by September 2015. Each agency's plan is to include descriptions of the internal controls to be used to comply with the policy, use of performance benchmarks and reduction targets for office and warehouse space, and documentation of cost reductions generated.

While these positive steps have potential, the federal government continues to face three primary challenges in managing its real property portfolio, including: (1) maintaining more real property than it needs, (2), relying on leasing when ownership would be more cost efficient; and (3) making real property management decisions using unreliable data.

Excess and underutilized property

Retaining unneeded real property results in significant costs to the federal government. The previous and current administrations have sought to reduce its excess and underutilized properties. In July 2014, the Administration released the first year results of the Freeze the Footprint policy, indicating that it exceeded its goals for reducing the federal government's office and warehouse space between fiscal years 2012 and 2013.[3] However, as we reported in our 2015 High-Risk update the data behind these results were unreliable, resulting in a potential overstatement of the progress made to date in reducing the federal government's real property footprint. Specifically, we examined data from four of the six agencies claiming the largest reductions in the first year of implementation of the Freeze the Footprint policy and found that the actual space reductions at all four were overstated.

- At least one of the two largest reported space reductions for each of the four selected agencies was either overstated or did not represent a reduction in square footage at all.
- Some of the largest reported space reductions were due simply to the timing of the fiscal year 2012 baseline for reporting.
- Some reported space reductions represented corrections in data or re-measurements of space, not actual reductions.
- Some properties credited as having been disposed of by agencies were simply returned to GSA and remained part of the federal inventory.

Further, we also found in our 2015 High-Risk update that according to agency officials, some of the space reductions achieved in the first year of the Freeze the Footprint policy were the result of efforts underway before the policy began. Although not directly attributable to the Freeze the Footprint policy, such reductions did represent progress in reducing excess and underutilized space. In addition, federal officials noted that the policy served as an incentive to reduce office and warehouse space going forward.

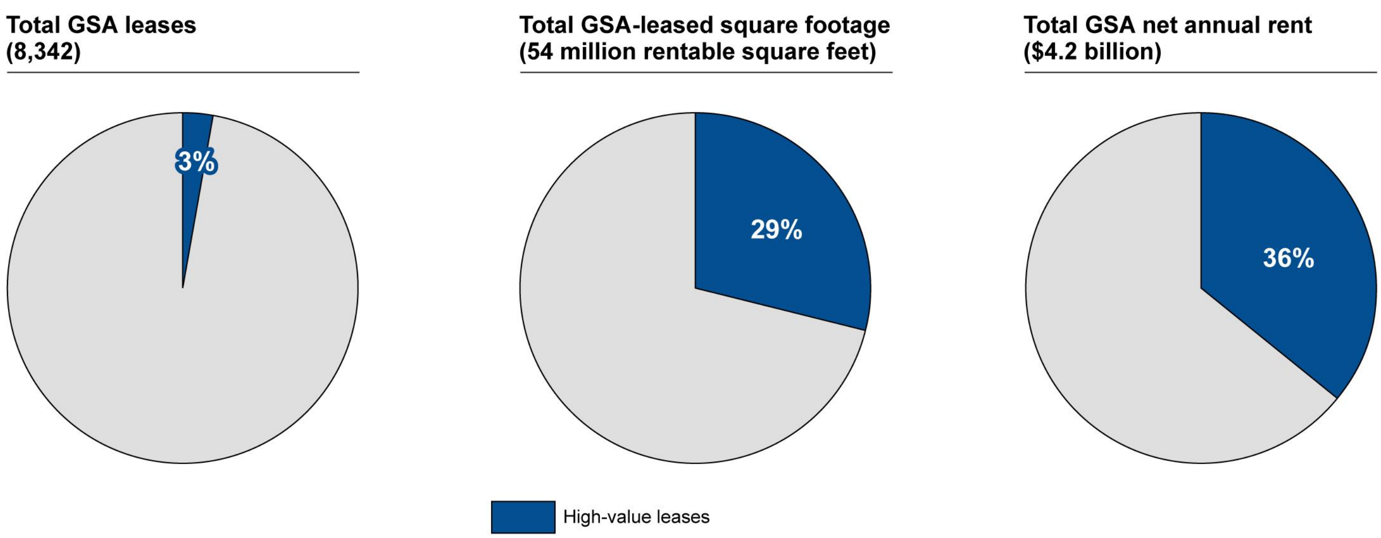
Costly Leasing

The federal government continues to rely heavily on leasing of properties where it would be more cost efficient in the long run for the federal

[3]OMB reported a reduction of 10.2 million square feet of space in the first year of Freeze the Footprint reporting.

government to own. In our February 2015 High-Risk update, we reported that the federal government has taken steps to limit the federal real property footprint by trying to consolidate high-value leases and smaller leases as they expire, moving some high-value leases into government-owned space, and helping agencies use space more efficiently.[4] However, we also reported that GSA lacked an action plan and transparent data to demonstrate progress in achieving this goal. In 2013, we found that high-value leases accounted for over one-third of GSA's annual rent paid to private sector landlords and more than a quarter of the total lease square feet while representing just 3 percent of GSA leases (See Figure 1).[5] GSA, however, has not yet determined which of those leases would be the best candidates for ownership investments. We made recommendations in this report that we will discuss later.

Figure 1: Percentage of High-Value Leases in GSA's Leased Real Property Portfolio, by Number, Size and Cost, as of November 2012



Source: GAO analysis of General Services Administration (GSA) data. | GAO-15-688T

Data reliability

Despite the demonstrated leadership interest in improving real property data, the federal government continues to face challenges with the

[4]GAO, High-Risk Series: An Update, GAO-15-290 (Washington, D.C.: February 2015).

[5]GAO, Federal Real Property: Greater Transparency and Strategic Focus Needed for High-Value GSA Leases, GAO-13-744 (Washington, D.C.: September 2013).

accuracy and consistency of the FRPP. Consistent and accurate data are necessary in order for GSA and agency managers to effectively manage real property. In 2012 we reported that FRPP data did not consistently describe excess and underutilized federal real properties accurately.[6] While the government has taken some steps to improve FRPP, additional improvements are needed. Specifically, since the 2012 report, we have identified additional areas of weaknesses in FRPP data related to space reductions reported by agencies, maintenance needs, the utilization of warehouse space, and how agencies track structures. For example, in our November 2014 report,[7] we found that agencies do not apply a consistent definition for warehouse utilization, limiting the data's usefulness. We made recommendations in this report that we will discuss later.

Implementing GAO Recommendations and Proposed Legislation Could Help the Federal Government Overcome Underlying Challenges to Real Property Management

We believe that the path forward to better management of federal real property is comprised of three important steps. First, the implementation of OMB's new National Strategy and the related efforts that I have already discussed are critical. Second, our existing recommendations related to Real Property High Risk should be implemented. Finally, legislation could help address some of the challenges, such as the property disposal process and competing stakeholder interests.

GAO Recommendations

Sustained progress is needed to address the conditions and persistent challenges that make federal real property management High Risk.

[6]GAO, Federal Real Property: National Strategy and Better Data Needed to Improve Management of Excess and Underutilized Property, GAO-12-645 (Washington, D.C.: June 2012).

[7]GAO, Federal Real Property: Strategic Focus Needed to Help Manage Vast and Diverse Warehouse Portfolio, GAO-15-41 (Washington, D.C.: November 2014).

Although multiple administrations have committed to a more strategic approach toward managing real property, their efforts have not yet fully addressed the underlying challenges that we have identified. In recent years, we have made a number of recommendations to GSA that, if implemented, would improve the management and reduce the costs of real property across the federal government. Several of our priority recommendations that have not yet been fully implemented include:

- In a June 2012 report,[8] we recommended that GSA take four specific steps to make the FRPP database a better decision-making tool. First, we recommended that GSA should take steps to ensure that all data collection requirements are clearly defined and that data reported are consistent across agencies. Second, we recommended that GSA should design and utilize performance measures to assess the extent to which the federal government makes efficient and economical use of its real property assets. Third, we recommended that GSA could reduce the data collection burden on federal agencies by limiting the number of measures to those that are deemed essential and included in FRPP. Finally, we recommended that GSA should report annually on the data it collects. GSA agreed with our recommendations and is implementing measures for the fiscal year 2015 FRPP reporting cycle aimed at improving its reliability and usefulness. This effort continues to be a work in progress.
- In July 2012, we recommended that GSA and OMB collaborate to develop a 5-year capital plan to help ensure that long-term goals are fully considered and documented when making decisions to fund capital projects.[9] We stated that, to enhance transparency, allow for more informed decision making related to GSA's real property priorities, and make a stronger case for its capital investment priorities, GSA should develop and publish a comprehensive 5-year capital plan. Although GSA agreed with this recommendation, officials told us that the unstable budget environment of recent years has limited the agency's ability to develop such a plan.
- In a September 2013 report, we recommended that GSA articulate a better case for increasing federal investments in real property

[8] GAO-12-645

[9] GAO, Federal Buildings Fund: Improved Transparency and Long-term Plan Needed to Clarify Capital Funding Priorities, GAO-12-646 (Washington, D.C.: July 2012).

ownership when it is more cost effective than leasing.[10] Specifically, we recommended that GSA should develop and use clear criteria to rank and prioritize potential long-term ownership solutions for current high-value leases among other capital investments and use this ranking to create a long-term, cross-agency strategy that facilitates the prioritization of targeted ownership investments. GSA agreed with this recommendation and we believe could use the newly issued real property strategy as a tool for implementing the actions needed.

- In November 2014, we recommended that GSA develop a clear strategy to manage the federal government's warehouse portfolio, including developing and disseminating warehouse management guidance, promoting lessons learned and best practices, and leading agencies as they assess their warehouse portfolios.[11] GSA agreed with the recommendation and is developing property guidance and research on best practices in warehouse and inventory management.

We will continue to monitor GSA's actions to implement these and our other real property recommendations.

Legislation

Since 2011, there have been several real property reform bills introduced in Congress. However, none have been enacted. One of the bills, was the Real Property Asset Management Reform Act that would have codified the FRPC and converted the homelessness assistance screening process required for all excess and underutilized properties into grants to homelessness assistance providers. Another bill, the Civilian Property Realignment Act (CPRA), provided a framework for disposing and consolidating civilian real property, and potentially reducing the need for costly leasing. In addition, CPRA would have addressed some of the underlying challenges facing the disposal of unneeded property, such as competing stakeholder influences. In 2011, we testified that CPRA could improve real property management by establishing an independent board to streamline the disposal process and group all disposal and consolidation recommendations into one proposal for Congress to consider in its entirety. The bill did not explicitly address the government's overreliance on leasing, but could have potentially reduced leasing through board recommendations for consolidating operations where

[10]GAO-13-744

[11]GAO-15-41

appropriate. Initially proposed by the Administration in 2011, the bill was subsequently introduced in both houses of Congress. It passed the House of Representatives in 2012, but was not enacted.

We have also made legislative suggestions to Congress as part of our September 2014 report on Title V of the McKinney-Vento Homeless Assistance Act.[12] We found that, since its inception in 1987, the Title V homelessness-assistance program has transferred 122 properties of the 40,000 screened federal properties to homeless service providers. In many cases, properties were not practical for homeless service providers to use, especially considering that nearly 80 percent of screened buildings required moving them from their location. However, the law requires agencies to report all excess, surplus, underutilized, and unutilized properties, including the ones that must be moved from their current location. As a result, we suggested Congress revisit the types of properties that must be screened for potential use to assist the homeless.

Chairman Johnson, Ranking Member Carper, and Members of the Committee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contacts and Staff Acknowledgments

For further information regarding this testimony, please contact David Wise at (202) 512-2834 or wised@gao.gov. In addition, contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this testimony are Keith Cunningham (Assistant Director), Alex Lawrence, Mary Pitts, Crystal Wesco, and Chad Williams.

[12] GAO, Federal Real Property: More Useful Information to Providers Could Improve the Homeless Assistance Program, GAO-14-739 (Washington, D.C.: September 2014).

Appendix I: Accessible Data

Data Table for Figure 1: Percentage of High-Value Leases in GSA's Leased Real Property Portfolio, by Number, Size and Cost, as of November 2012

	High value leases
Total GSA leases (8,342)	3%
Total GSA-leased square footage (54 million rentable square feet)	29%
Total GSA net annual rent ($4.2 billion)	36%

Source: GAO analysis of General Services Administration (GSA) data. | GAO-15-688T

Related GAO Reports

GAO, *High-Risk Series: An Update,* GAO-15-290 (Washington, D.C.: February 2015).

GAO, *Federal Real Property: Strategic Focus Needed to Help Manage Vast and Diverse Warehouse Portfolio,* GAO-15-41 (Washington, D.C.: November 2014).

GAO, *Capital Financing: Alternative Approaches to Budgeting for Federal Real Property,* GAO-14-239 (Washington, D.C.: March 2014).

GAO, *Federal Real Property: Actions Needed to Improve How Agencies Manage Structures,* GAO-14-87 (Washington, D.C.: January 2014).

Federal Real Property: Improved Standards Needed to Ensure That Agencies' Reported Cost Savings Are Reliable and Transparent, GAO-14-12 (Washington, D.C.: October 2013).

GAO, *Federal Real Property: More Useful Information to Providers Could Improve the Homeless Assistance Program,* GAO-14-739 (Washington, D.C.: September 2014).

GAO, *Federal Real Property: Greater Transparency and Strategic Focus Needed for High-Value GSA Leases,* GAO-13-744 (Washington, D.C.: September 2013).

GAO, *Federal Buildings Fund: Improved Transparency and Long-term Plan Needed to Clarify Capital Funding Priorities,* GAO-12-646 (Washington, D.C.: July 2012).

GAO, *Federal Real Property: National Strategy and Better Data Needed to Improve Management of Excess and Underutilized Property,* GAO-12-645 (Washington, D.C.: June 2012).

GAO, *High-Risk Series: Federal Real Property,* GAO-03-122 (Washington, D.C.: January 2003).

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