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

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February 6, 2012

BRIEFING MEMORANDUM

TO:	Members of the Subcommittee on Economic Development, Public Buildings and Emergency Management
FROM:	Subcommittee on Economic Development, Public Buildings and Emergency Management Staff
SUBJECT:	Oversight Hearing on "One Year Later: Still Sitting on Our Assets"

PURPOSE

The Subcommittee on Economic Development, Public Buildings and Emergency Management will meet on Thursday, February 9, 2012, at 10:00 a.m., at the Old Post Office Building Annex located at 1100 Pennsylvania Avenue, NW, Washington D.C. to receive testimony from the General Services Administration (GSA). The hearing will focus on the costs to the taxpayer of underperforming or vacant assets, models for their redevelopment or reuse, and how spending can be reduced through private redevelopment of underperforming assets.

BACKGROUND

One year ago, the Subcommittee held a hearing at the Old Post Office. At that time, the Annex of the OPO sat vacant and one year later it remains vacant. Since that hearing, H.R. 1734 was introduced to create a civilian BRAC-like process to create savings by shrinking the federal footprint and selling or redeveloping under-used buildings.

General Services Administration

The Subcommittee has jurisdiction over all of GSA's real property activity through the Property Act of 1949, the Public Buildings Act of 1959, and the Cooperative Use Act of 1976. These three Acts are now codified as title 40 of the United States Code.

The Public Buildings Service (PBS) is responsible for the construction, repair, maintenance, alteration, and operation of United States courthouses and public buildings of the Federal Government. Additionally, PBS leases privately owned space for Federal use. GSA owns or leases 9,600 assets and maintains an inventory of more than 362 million square feet of workspace. GSA acts as the "landlord" for the federal government, obtaining and managing space to meet the space needs of other federal agencies. GSA, however, is just one of nine[1] federal agencies that, in total, own or manage 93% of federal real property.

Management Issues

Given the vast real estate holdings of the federal government, poor asset management and missed market opportunities cost taxpayers significant sums of money. For this reason, in 2003, the Government Accountability Office placed real property management on its list of "high risk" government activities where it remains today. GAO conducts biennial reviews on high-risk areas within the Federal government to bring focus to specific areas needing added attention and oversight. Areas are identified as "high" risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement or areas that need broad-based transformation to address major economy, efficiency, or effectiveness challenges.

The key reasons the GAO identified federal real property as high risk are:

- excess and underutilized real property,
- deteriorating and aging facilities,
- unreliable property data, and
- the over reliance on costly leasing.[2]

Unfortunately, despite executive orders and memoranda issued during two administrations and acts of Congress intended to improve the management of federal real property, these problems persist.[3] The high risk activities of Federal real property are significant. Considerable amounts of vacant or underperforming assets can translate into significant costs associated with their operation, maintenance, and security. For example, in fiscal year 2009, the federal government spent $1.7 billion in annual operating costs for under-utilized buildings and $134 million, annually, for excess buildings.[4]

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[1] The other major land-holding departments and agencies include the Department of Defense, Veterans Affairs, Department of Energy, Department of Homeland Security, Department of the Interior, Department of State, National Aeronautics and Space Administration, and the U.S. Postal Service.

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

[3] *See,* for example, Executive Order 13327, Federal Real Property Asset Management, signed by President George W. Bush, February 4, 2004; Presidential Memorandum, Disposing of Unneeded Federal Real Estate, signed by President Barack Obama, June 10, 2010; Public Buildings Cooperative Use Act of 1976; Public Law 108-447, Division H, Title IV, Section 412, December 8, 2004 (providing enhanced flexibility to GSA in real property management).

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

Old Post Office Building

The historic Old Post Office building is an example of a major underperforming GSA property, located at a prime location in the nation's capital, just blocks from the U.S. Capitol and the White House. Built from 1892 to 1899 to house the U.S. Post Office Department Headquarters and the city's post office, the Old Post Office (OPO) Building is the second-tallest structure in the nation's capital, after the Washington Monument.[5] It sits partially occupied and loses millions of taxpayer dollars a year.

According to GSA, it leases approximately 200,000 square feet of office space in the building to a variety of federal agencies, which include the National Endowment for the Arts, GSA, the National Endowment for Humanities, and the Advisory Council on Historic Preservation. The main OPO building sees approximately 200,000 visitors a year for the clock tower and retail establishments. The large atrium or core of the building and common areas consume 44% of the building's space, making it inefficient as an office building today.

GSA collects about $5.5 million in rent each year. The building is more than 375,000 square feet.[6] In addition, the clock tower at top the building is operated by the National Park Service. In order to make better use of the building, in 1982, GSA attempted to redevelop the lower levels of the building for retail use and awarded a master lease for 55 years to a developer for retail. In 1989, the lease was amended to allow for the construction of a new retail facility in the OPO courtyard (Annex) of 53,000 square feet and was built with both public ($1.8 million) and private funds ($5.5 million).

The OPO Annex opened but was never fully occupied and, in 1993, the private developer defaulted on its loan. GSA later bought out the remaining part of the master lease in 1998. However, the Annex now remains vacant and deteriorating. GSA spends about $12 million to operate and maintain the facility, which results in an annual operating loss of $6.5 million. Despite specific direction and explicit authority enacted into law in 2008, GSA has not yet begun the process of redeveloping the site.[7] In 2005, GSA determined that the 30-year net present value of simply leasing out the building for private development would yield an average of $21 million.[8] The Request for Proposals (RFP) was issued in March 2011; however, as of this memo GSA has yet to select a developer.

The OPO is an example of an underperforming building that if redeveloped to better use could provide a positive return on the investment. The GSA has had previous experience working with the private sector to turn historic buildings to profitable use. A recent example, the highly regarded renovation of the historic Tariff Building in

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[5] Building Overview, Old Post Office, Washington, D.C., U.S. General Services Administration.
[6] Inventory of Owned and Leased Properties, U.S. General Services Administration.
[7] Old Post Office Building Redevelopment Act of 2008, Public Law 110-359.
[8] Executive Summary of Responses to the RFI for the Old Post Office, U.S. General Services Administration, Final Draft, July 25, 2005, p. 3.

Washington, D.C., not far from the Old Post Office, has been converted from a money losing asset of the Federal government to the Monaco Hotel, which is generating revenue for the Federal government. The redevelopment of the Tariff Building is an illustration of what can be achieved when the Federal government works with the private sector to produce a site that brings a return to the government, provides a safe and necessary facility for the city, and preserves a unique historic treasure.

WITNESSES

Mr. Robert Peck
Commissioner, Public Buildings Service
U.S. General Services Administration