Statement of James M. Sullivan, Director, Asset Enterprise Management
U.S. Department of Veterans Affairs
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Senate Homeland Security and Government Affairs Committee

Federal Asset Management: Eliminating Waste by Disposing of Unneeded Federal Real Property

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Chairman Carper, Ranking Member Brown and members of the Subcommittee, thank you for the opportunity to appear today to discuss the Department of Veterans Affairs (VA) management of its real property portfolio, particularly its ongoing effort to reduce or eliminate unneeded or underutilized property. I will also take the opportunity to articulate VA's support for the Civilian Property Realignment Act (CPRA) proposed by the President in the FY 2012 budget.

It is a privilege for me to represent Secretary Shinseki and the many dedicated, hard-working professionals of the Department who support our mission to serve Veterans and their families by providing benefits and world class medical services.

I would like to begin by providing you with a summary of VA's real estate portfolio. VA owns and leases real property in hundreds of communities across the U.S. and overseas. Currently, VA maintains more than 160 million square feet in 7,150 owned and leased buildings and more than 33,000 acres of land. This is a very large footprint, and unlike many federal agencies, VA owns the large majority of its portfolio – 88 percent of its square footage which means real estate plays an important role in our overall asset management.

VA strives to maintain the optimal mix of investments needed to achieve strategic goals and ensure a high level of performance for our assets, while minimizing risk and maximizing cost effectiveness. VA has developed and continues to look for sound capital asset management strategies to assist in maximizing the value of its portfolio by disposing of or reusing underutilized properties. This aligns with the goals of the CPRA bill – to recommend properties for disposal, transfer, or other realignments in order to achieve savings, reduce costs, and increase efficiencies.

VA has been a leader in capital asset management planning. VA was the first agency to develop a highly structured, data-driven methodology by which to assess proposed major construction projects. Beginning with the FY 2012 budget formulation process, VA introduced the Strategic Capital Investment Process (SCIP) to prioritize all capital investments based on today and future-identified mission needs.

SCIP, incorporating the best features of VA's initial methodology, involves a systematic evaluation of all proposed capital investments across the Department, based on how well they address identified performance gaps (e.g., safety, security, workload-driven capacity shortage, right-sizing, and access for Veterans – including providing housing for homeless Veterans).

These gaps specify where current infrastructure or services need to be enhanced to meet the location and demand of current and future Veteran demographics or when VA may have excess capacity from the past. Only those capital investment projects that have addressed identified performance gaps are proposed for funding in VA's budget. CPRA, as a disposal process, thereby compliments SCIP.

All projects are considered in light of VA's aging infrastructure. On average, VA-owned assets are more than 60 years old. The SCIP process directly addresses the challenges posed by an aging infrastructure with a range of solutions, including reuse, repurposing, or disposing of unneeded assets. These efforts reduce inefficiencies and decrease the government spatial footprint. Similarly, the CPRA bill also introduces a strategy by which to reduce inefficiencies and decrease the government's footprint. The bill seeks to address the agencies' challenges related to unneeded property.

Similar to other Federal agencies, VA faces challenges related to underutilized and/or vacant property. VA defines underutilized as any property that may be occupied or in use where the current usage does not require the full amount of space that the property affords.

The historic nature of VA's inventory also limits its ability to dispose of assets. In some instances, underutilized buildings become suitable candidates for consolidation. However, given rising demand and the associated increased space requirements, asset consolidation plans are continually evaluated.

VA has made significant progress in its efforts to reduce its vacant and underutilized building footprint. In the last 5 years (2006-2010), VA completed disposals or reuse of approximately 381 assets – 111 asset disposals or reuses were completed in 2010 alone. Nearly 4 million square feet and over 400 acres were disposed of during this 5-year span. In each of these last five years, completed disposals have increased each year reflecting VA's aggressive pursuit of disposal or reuse opportunities to reduce unneeded assets.

Since 2001, VA has reduced its inventory of owned vacant space by 34 percent, from 8.6 million square feet in 2001 to 5.7 million square feet in 2010. Moreover, despite a growing mission and greater workload, VA's overall gross square footage has grown less than 1 percent since 2005.

VA's success to-date has been accomplished through the use of several tools by which to dispose of and reuse underutilized or vacant property including repurposing, demolition, or asset sales. A common element for the successful use of these tools is the development of a working partnership between VA, Veteran Service Organizations, local and state governments, and the community in which our facility is located. This "win-win" partnership between VA, all of its stakeholders, and its partners is the single most important ingredient for successful disposal/reuse strategy of unneeded or underutilized properties.

This is a similar process envisioned for the CPRA Board, in which the Board will work with the Federal agencies and key stakeholders to develop the Board's recommendations for the realignment of Federal properties.

As of February 2011, VA had 313 vacant buildings and 597 underutilized buildings. These 910 buildings accounted for 10.7 million square feet of both vacant and underutilized space. With regards to 313 vacant buildings, VA has plans to dispose or reuse 250 or 80 percent of these. The remaining 63 vacant buildings are mostly historic (48/63 or 76 percent) which pose greater disposal challenges. VA classifies properties as "historic" if they are listed on National Historical Register or are eligible to be listed on the Register.

At the forefront of VA's disposal and reuse efforts is the need to identify housing for at-risk Veterans, such as homeless Veterans. In this context, VA's Building Utilization Review and Repurposing (BURR) process is a critical tool.

BURR is a program that enables VA to identify properties that are underutilized or vacant and that can be repurposed for a variety of uses including Veteran housing. Most recently, through the BURR, VA has made a concerted effort to identify vacant or underutilized buildings that have potential to provide housing opportunities for our nation's homeless Veterans and their families. BURR is critical in not only reducing VA's unused and underutilized real estate inventory, but also to achieve Secretary Shinseki's goal to end homelessness among Veterans.

On May 19, 2011, the Secretary approved 34 BURR projects – including 98 buildings and 617 acres of land identified for conversion to housing for homeless or at-risk Veterans and their families. These 34 BURR projects are part of VA's ongoing effort to repurpose underutilized and vacant property to provide housing opportunities to Veterans, bringing our total BURR projects to 58. VA will schedule an industry forum with housing developers and service providers to formulate best strategies for these sites. This forum is scheduled to take place later this month. We are working with sister agencies—the Departments of Housing and Urban Development, and Agriculture, and others—to ensure we take full advantage of all means to develop housing for our homeless Veterans.

Once vacant or underutilized buildings are identified as candidates for repurposing via BURR or other means, VA can employ its enhanced-use lease authority (EUL), when applicable, to help reduce and eliminate underutilized and vacant assets.

The EUL authority was enacted in 1991, and is codified in sections 8161 through 8169 of title 38, U.S. Code (38 U.S.C. §§ 8161 – 8169). In 2001, the authority was renewed for an additional 10 years through the end of 2011.

The EUL authority allows VA to outlease land and improvements under the Department's jurisdiction or control, to public or private sector entities for up to 75 years. In return, VA receives negotiated monetary and/or in-kind consideration. The leased property is developed, used, and maintained for agreed-upon uses that directly or indirectly support VA's mission. For example, in return for a long-term EUL arrangement, a selected lessee may be required to provide housing units to Veterans who are homeless or at-risk for homelessness on a priority basis. To date, executed EULs have included transitional, assisted living, and senior housing (benefiting Veterans), as well as power plants, office buildings, parking facilities, and childcare centers.

EULs have provided a variety of benefits such as enhanced services to Veterans, operations and maintenance cost savings, private investment, new long-term revenue for VA, job creation, and additional tax revenues for local, state and federal sectors. In some instances, EULs have helped VA meet its environmental goals by creating on-site renewable energy facilities enabling VA to reduce its greenhouse gas emissions.

Since the original EUL legislation passed in August 1991, more than 60 projects have been awarded with approximately $174.5 million in total monetary and in-kind consideration to VA, and approximately $266 million in cost savings. Eighteen housing EULs have provided 1,066 housing units benefiting Veterans.

Two recent examples of EUL successes were the consolidation of multi-campus (i.e., dispersed) medical facilities in Chicago, Illinois, and Cleveland, Ohio. Through EUL, VA was able to outlease more than 3.8 urban acres in Chicago and 100 acres in Cleveland. VA received $50 million in lease payments and sale proceeds from the Chicago EUL. Through the Cleveland EUL, VA is projected to realize $12 million in annual cost savings and $10 million in consideration/cost avoidance.

In summary, the Department's EUL authority is a multi-purpose tool that allows VA to leverage its underutilized and vacant buildings through public/private ventures through third-party development, financing, and supportive services. EULs allow VA to reuse properties in various ways to meet mission-related needs such as Veteran housing needs.

In terms of Veterans housing, EUL provides multiple benefits: helping to reduce homelessness among our Veterans while leveraging an underutilized asset, reducing the inventory of underutilized real estate, and transferring the operation and maintenance costs to a developer – while maintaining VA control of the underlying asset.

The Department's authority to enter into additional EUL agreements will expire on December 31, 2011. VA is developing an improved request to address the imminent expiration of its EUL authority. Currently, VA has 19 EUL projects underway to provide nearly 2,200 units of housing for homeless Veterans and their families. Additionally, another 34 BURR- identified housing projects with an estimated 1,700 units of housing for homeless Veterans and 900 units of housing for senior and non-senior independent living and assisted living have been approved by the Secretary.

Going forward, eliminating waste through efficient use of our buildings is critical. In the Veterans Health Administration, overall space utilization is 21 percent over designed capacity. Outpatient workload is projected to increase by approximately 20 percent by 2018, requiring additional space. As a result, identifying and repurposing underutilized space will become critical.

Space utilization, disposal, and reuse planning will be critical factors as projects are evaluated through VA's new capital planning process, SCIP. In addition, the CPRA bill provides another strategy to update our planning process as we manage the disposal or realignment of Federal assets that would seek savings, reduce costs, and increase efficiency. Each will provide VA a rigorous capital planning process that quantifies and prioritizes the need to repair, upgrade, dispose of, or replace VA's aging infrastructure and address the current and future needs of America's Veterans within the context of prudent capital investment decision making.

To conclude, VA welcomes the potential addition of the Civilian Property Realignment Act (CPRA) to its toolkit for reducing unneeded assets. CPRA will enable agencies, including VA, to cut waste and save taxpayer dollars by disposing of properties through a streamlined approach, and break through longstanding barriers created by red tape, financial disincentives, and competing stakeholder interests. The President's CPRA proposal, in combination with EUL and other strategies, will help VA continue to reduce operations and maintenance costs for its most challenging assets.

I appreciate the opportunity to testify on these important topics. Thank you.