

Statement of Senator Thomas R. Carper, Chairman

**Subcommittee on Federal Financial Management, Government Information,
Federal Services, and International Security**

Committee on Homeland Security and Governmental Affairs

“Federal Real Property: Real Waste in Need of Real Reform”

May 24, 2007

The subcommittee will come to order.

My thanks to our witnesses for taking the time to participate in this hearing, the third this subcommittee has held on the issue of property management. This hearing will examine the findings included in GAO’s most recent update of its High Risk report on federal property management.

Federal property management has been on GAO’s High Risk list since 2003 – about four years now. As many of those watching or listening to this hearing will know, the High Risk list details the most serious management issues the federal government faces. Just a casual read of the testimony we have before us today should tell anyone why the way in which agencies are handling their property is so problematic, and why the Financial Management Subcommittee would be interested in exercising oversight in this area.

Most agencies have a presence – sometimes a major presence – not just here in Washington but in communities large and small across the country. This is not the problem. The problem is that the property agencies make use of to serve the American people appears to be managed in such an unprofessional manner, in some cases, that agencies are likely wasting billions of dollars every year.

The administration – as they have in some other key management areas – has made some progress in recent years in improving federal property management. The President responded to GAO’s High Risk designation for property management by setting up, for the first time, a team of qualified senior leaders at key agencies whose sole job would be to better manage their agencies’ property assets and align their physical infrastructure with agency missions.

The President also set up a Federal Real Property Council, which is working to develop a reliable inventory of all federal property and to set property management standards, performance goals, and systems for measuring agency performance. Agencies are now graded on their adherence to sound property management principles through the President’s Management Agenda.

As GAO has pointed out, however, there are still a number of very costly challenges remaining.

Chief among the management deficiencies we'll hear discussed today is the fact that many agencies hold on - year in and year out - to thousands of pieces of property that are unneeded, underutilized or, as Senator Coburn and I found out during a field hearing in Chicago, completely vacant.

When an agency maintains possession over a property it does not need to carry out its mission, taxpayers must shell out countless sums to pay unnecessary security, maintenance, and utility costs. This is apparently a major problem at NASA and the Departments of Energy and Homeland Security, where GAO has reported that more than 10 percent of agency assets could be taken off the books but is sitting idle.

Senator Coburn and I hope to address this problem later this year with legislation we're currently working on - legislation that the President has recommended in his budget - that would streamline the property disposal process and give agencies the financial incentive to get rid of what they no longer need. Agencies such as VA that have the ability to retain some of the proceeds when they dispose of property they own carry very few unneeded assets. We should take what works at these agencies and use it to help other make more sensible management decisions.

Another expensive property management problem that has been highlighted by GAO is the over-reliance in some agencies on leases to meet their space needs, even when purchases or new construction are the most cost-effective way to meet those needs over the long run.

This is another issue that Senator Coburn and I plan to spend some time working on. GAO, at this subcommittee's request, is currently examining the cost difference between leases and other available options so we can get a better sense of how much the lease agreements agencies are entering into with increasing regularity are costing us. The costs, I believe, are likely to be quite significant.

GAO has testified in the past that the cost of the lease the Patent and Trademark Office entered into for their new headquarters building in Alexandria, Virginia several years ago will cost taxpayers \$38 million more than a lease-purchase agreement would have cost. It will cost us \$48 million more than it would have cost us to construct a new building from scratch.

This is unacceptable, and I fear it may only be the tip of the iceberg. Our witness from GSA will testify today that, by the end of this year, his agency will reach the point for the first time where the majority of its portfolio consists of leased facilities.

Leases make sense in some cases, I'm sure, but we need to be sure that agencies are doing their due diligence at the outset and making sure - to the best of their abilities - that they are going about meeting their space needs in the most cost-effective manner.

We will also need, in all likelihood, to revisit the arcane budget rules that encourage agencies to go with leases when it doesn't make sense for them to do so

These two problems are just the most costly of those highlighted by GAO and others. Maintenance backlogs are another. When an agency – either due to incompetent management or a lack of resources – ignores a routine maintenance problem until it becomes a catastrophic one, taxpayers are at risk of spending significant amounts of money to repair or restore something which could have been addressed earlier on for significantly less. According to GAO, just seven agencies they contacted reported more than \$77 billion in maintenance backlogs. DOD alone reported \$57 billion.

And finally, there is the fact that at least some of the data agencies have on their property inventory is likely unreliable. For fiscal year 2006, as it has for the past 9 years, GAO reported that the federal government could not satisfactorily determine that information on federal property was properly reported in its annual financial statement. Without reliable information in this area, agencies do not fully know the assets they own and do not know the location and condition of that property. They also cannot effectively manage their assets to achieve their missions in the most efficient way possible.

These are all very difficult issues to tackle. I have some experience in them, however, from my days as Governor of Delaware. The size of our state government is much smaller than the federal government, of course, and our asset inventory is likely only a fraction of what federal agencies control. But we faced similar problems during my administration and were able to tackle them and solve them in a systematic way.

So there's a road map out there for us to follow, and we've had a good start. I look forward to continuing to work with our witnesses and with Senator Coburn and my other colleagues on this subcommittee to provide the oversight and give agencies the tools – and sometimes maybe the push – that they need to give taxpayers the kind of property management system that they expect and deserve.