Statement of James M. Sullivan, Director, Asset Enterprise Management
U.S. Department of Veterans Affairs
before the
Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security
Senate Homeland Security and Government Affairs Committee

Federal Leased Property: Are Federal Agencies Getting a Bad Deal?

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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 leased property portfolio, with particular focus on the process VA uses to make decisions of whether to lease or build; and on its selection and execution of capital investments to serve our Nation's Veterans and their families.

VA is the owner, tenant and operator of one of the largest health care real estate portfolios in the United States. In addition to health-care related real estate, the Department maintains facilities for the Veterans Benefits Administration (VBA) and most of the Nation's national cemeteries under management of VA's National Cemetery Administration (NCA). Leasing has been and continues to be an essential part of VA's capital portfolio management. Overall, VA maintains approximately 159 million square feet in 7,200 owned and leased buildings and more than 33,000 acres of land. At the end of fiscal year (FY) 2010, approximately 17 million square feet of this space had been acquired through over 1,629 leases for the Department -- ranging in term length from a few months to 20 years.

VA is authorized to acquire land or interests in land for medical and non-medical related purposes, which includes hospitals, community based outpatient clinics, cemeteries, medical research space, and medical-related needs such as space to support the Department's health information functions. VA enters into lease agreements for medically-related space or capacity needs in locales across the Nation. One of VA's primary goals is providing access points for service where Veterans are located. In many cases, leasing provides more flexibility, in lieu of constructing an owned asset, to meet the constant demographic shifts and changing service demands of our Nation's Veterans.

VA's mission drives the use of VA's leasing authority. Leasing enables VA to relocate underlying services depending on changes in medical technology, workload, new programs, and demographic data. Veterans are not only mobile, but require different methods of healthcare and service delivery, especially when the Nation is at war and VA must respond quickly when and where a need arises.

The need for space to support VA's mission is identified through the Strategic Capital Investment Planning (SCIP) process. The SCIP process was initiated for the 2012 budget formulation process. VA made enhancements to its strategic capital planning and investment decision-making processes by providing a more comprehensive approach to capital investment planning. SCIP builds upon previous capital investment processes by capturing, for the first time, the full extent of our infrastructure inventory (including underutilized and vacant properties), identifying gaps in the provision of service to our Veterans and their families, and developing a 10-year strategic capital plan, employing both capital and non-capital solutions, to address these gaps. VA's first-ever Department-wide integrated and prioritized list of 2012 capital projects is an important outcome of the SCIP process. Through SCIP, VA evaluates each capital investment proposal based on its contribution to six key criteria – "Safety and Security," "Department Major Initiatives," "Fixes What We Have," "Increases Access," "Right-Sizing Inventory," and "Ensuring Value of Investment."

As an integral part of the SCIP process, VA systematically evaluates all proposed capital investments based on how well they address identified performance gaps (e.g., safety, security, workload-driven capacity shortage, right-sizing, and access for 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. Only those capital investment projects that have scored well in addressing identified performance gaps are proposed for funding in VA's budget.

VA evaluates the decision of whether to build or lease. Projects considered for major construction and/or leasing are required to provide an "alternatives analysis" that considers the status quo, new construction and/or renovation, leasing, and contracting out for services. Review of the alternative analysis is a critical part of the decision-making process and assists in ensuring the most efficient and effective use of taxpayer's dollars. The major construction and lease prospectuses found in VA's budget submission provide the alternatives considered (major construction versus leasing) as well as justification for the chosen alternative.

VA considers the size and mission criticality of a project when deciding between building/purchasing or leasing a new facility. New construction of large inpatient, and specialty care projects, in most cases, is more cost effective to build versus lease over a 30-year building lifecycle. Outpatient and ambulatory services in many cases can be done more efficiently using leasing, as they provide more flexibility in occupancy terms and in executing an exit strategy. The ability to provide services as close as possible to the Veteran population is the key driver in all capital decisions.

VA leases medical space under its own statutory authority codified at 38 U.S.C. §§ 8101 and 8103, and can lease up to 2,500 SF of non-medical space through its current delegation from the General Services Administration (GSA). VA obtains its other lease space needs through GSA.

VA follows GSA regulations and complies with the Competition in Contracting Act, as well as the Federal Acquisition Regulation, in conducting its direct lease procurements. Leases in excess of $1,000,000 in annual unserviced rent cannot be awarded without prior Congressional authorization. VA's Real Property Service has years of experience in managing the Department's robust leasing program, employing a skilled workforce comprised of highly trained realty specialists and contracting officers.

All contracting officers assigned to lease procurements have completed lease training courses recommended by GSA, and all contracting officers for major lease procurements have level III Federal Acquisition Certification in Contracting (FAC-C). Contracting officers for lower-value leases have an appropriate level of FAC-C certification. All major lease project managers have had all five lease training courses GSA recommends, and are on the way to completion of Federal Acquisition Certification for Program and Project Managers (FAC-P/PM). To ensure compliance with applicable law and regulation, VA direct leases are reviewed by VA's Office of General Counsel prior to award. VA lease acquisitions keep pace with the latest Federal guidelines on physical security, sustainability, and energy efficiency. VA direct leases achieve rents at or below fair market value as determined by independent appraisals.

In addition to these traditional leasing programs, VA has been granted by Congress enhanced-use leasing (EUL) authority. This unique multi-purpose tool provides VA with an innovative process to partner with 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.

The Department's EUL authority allows VA to leverage our 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's housing. EUL program results have included significant cost savings compared to construction and leasing, substantial private investment in the Department's capital facilities and infrastructure, and new long-term sources of revenues.

The Department's authority to enter into additional EUL agreements will expire on December 31, 2011. Without a reinstatement of the EUL authority, VA will no longer have the mechanism in place to acquire third-party investment for new facilities, space, services or revenue to serve Veterans.

VA has 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. VA strives to maintain the optimal mix of investments – owned and leased assets – to achieve strategic goals and ensure a high level of performance for our assets while minimizing risk and maximizing cost effectiveness.

Mr. Chairman, this concludes my opening statement and I would be pleased to answer any questions you or the members of the Committee may have.