

STATEMENT OF
MR. NORMAN DONG
COMMISSIONER, PUBLIC BUILDINGS SERVICE
U.S. GENERAL SERVICES ADMINISTRATION
BEFORE THE U.S. SENATE COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

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Good morning Chairman Johnson, Ranking Member Carper, and members of the Committee. My name is Norman Dong, and I am the Commissioner of the U.S. General Services Administration's (GSA) Public Buildings Service. Thank you for inviting me to this hearing on federal real property reform.

GSA's mission is to deliver the best value in real estate, acquisition, and technology services to government and the American people. To meet this mission, GSA is working with Federal agencies to improve space utilization, reduce real estate costs, and deliver space that allows our partner Federal agencies to better achieve their missions. Additionally, we are working with the Office of Management and Budget (OMB) and the Federal Real Property Council (FRPC) to improve the Federal government's inventory system of real property, and disposing of unneeded assets and identifying opportunities to better use underperforming properties.

GSA manages one of the largest and most diversified public real estate organizations in the world. Its portfolio consists of 376.9 million rentable square feet (RSF) in 8,721 active assets across the United States, in all 50 states, six U.S. territories, and the District of Columbia (DC). By RSF, the owned inventory constitutes 49 percent of the portfolio and the leased inventory is 51 percent of the total.

The goal of GSA's real estate strategy is meeting the real property requirements of our Federal tenants at the lowest cost to the taxpayer. By analyzing long-term Federal requirements and local market dynamics across the country, we are identifying Federally-owned buildings for long-term investment, as well as buildings that may have a higher and better use outside of the Federal government through disposal, exchange, or outlease.

The bottom line is we are working to spend less on real estate so the government can devote more of the limited dollars on mission critical activities to serve the American people.

To accomplish this goal, GSA is focusing on five key priorities:

- First, GSA is working closely with Federal agencies to consolidate space and reduce the square footage per employee.
- Second, GSA is reforming our approach to leasing to save time and money.
- Third, GSA is aggressively disposing of unneeded assets.
- Fourth, GSA is leveraging exchange and out-leasing authorities to harness the value of our federal assets.
- Finally, GSA is supporting OMB in implementation of the Administration's National Strategy for the Efficient Use of Real Property to improve government-wide federal property management.

Partnering with Federal Agencies to Reduce the Federal Footprint and Save Taxpayer Money

At GSA, we recognize that excess spending on real property comes at the expense of more mission critical activities. To help federal agencies identify opportunities to save money through consolidation and space reduction, GSA actively engages with agencies through upfront planning; modernization of workspaces; innovative solutions for fit-out, technology, and mobility; and rightsizing their portfolios. Beyond saving money, these space-saving solutions also advance agency mission by creating more efficient workspaces that encourage collaboration and increase productivity.

These efforts have paid off with a number of successes that have helped reduce the government's long-term real estate costs.

In Fiscal Year 2014, Congress provided \$70 million for GSA consolidation projects. Using these funds, GSA is executing 20 projects in 10 states across the country that will reduce the Federal footprint by 571,000 square feet and reduce the government's leasing costs by \$40 million annually. Congress again provided \$70 million for consolidation projects in FY2015, and GSA is currently pursuing eight projects with a total investment of \$38 million that will allow the government to avoid \$8.7 million in future annual leasing costs and reduce the Federal footprint by 247,899 square feet. We anticipate identifying additional projects in the coming weeks which will reduce future annual lease payments and square footage. In Fiscal Year 2016, the Administration is requesting an increase to \$200 million for consolidation

projects, based on the positive return on investment these projects have generated in FY2014 and FY2015.

An example demonstrates how effective these projects have been. In Minneapolis, GSA partnered with the Department of Housing and Urban Development to reconfigure the Minneapolis Federal Building. With an investment of \$1.7 million, HUD was able to move out of leased space, saving the Federal government \$700,000 in annual lease costs and reducing the footprint by over 9,000 square feet.

Reforming our Approach to Leasing

GSA is currently focused on reforming our leasing program to reduce costs by improving long-range planning, maximizing competition, and increasing utilization. While we are reducing our reliance on leasing, the fact is that a sound property management strategy necessarily involves leasing: sometimes it is more cost effective to lease than to own, and some short term leases may be required as we consolidate and co-locate agencies in reduced space arrangements.

While there has been a significant focus on reducing the footprint, the cost of that footprint is just as important. To get the best deal for federal agencies and the American taxpayer, GSA is:

- Broadening the delineated area for leases in order to increase competition in our lease procurements;
- Extending lease terms to 10 years or longer, whenever feasible, because longer terms typically mean lower annual costs;
- Simplifying space requirements to allow for greater competition and more favorable rates; and
- Beginning the lease acquisition process at least 36 months before the expiration date to ensure a fully competitive procurement while avoiding costly holdovers and extensions.

Reducing holdovers and extensions is a particular focus in GSA's reform efforts. History shows that we pay a premium – as much as 20 percent – when we go into a holdover or extension due to the lack of market competition in these arrangements. To avoid this, we are working with our partner agencies on better long-range planning. Our goal is to develop requirements 36 months prior to lease expiration, and to issue lease advertisements 18 months prior to expiration. In implementing this long-range planning, we are starting to see results. By the end of FY2014, we had only 97 leases in holdover out of a total of more than 8,700 leases. This represents the lowest year-end figure since 2007.

And, just as with managing space in our owned assets, we also work with our federal partners to maximize utilization of leased space including through new workspace arrangements and mobile work strategies.

Disposal of Unneeded Assets

GSA aggressively disposes of our unneeded assets and provides assistance to other Federal agencies to more effectively utilize their properties, including through the identification and disposal of vacant and excess properties.

GSA disposes of its own unneeded properties, and also assists other federal agencies in disposing of their excess and underutilized properties. Partnering with other federal agencies, in FY2014, GSA worked to dispose of 342 properties government wide, generating \$42.7 million in proceeds. The bulk of the disposals were executed through public sales (280 disposals). Other property disposals involved negotiated sales (13), public benefit conveyances (44), and federal transfers (5). And in FY2015, GSA is on track to achieve its performance goal of reducing the federal inventory by three million rentable square feet. A recent example of a disposal in Seattle demonstrates how GSA can help unlock the value of a property that was previously a liability. In February of this year, the Federal Reserve Building in Seattle sold for \$16 million at online auction with eight bidders competing. The building, constructed in 1950, was transferred to GSA in 2012. After analyzing options to retrofit the building, GSA concluded to sell the building and negotiated a sale that protects the historic integrity of the asset while still allowing for the developer to renovate the facility.

GSA also can accomplish successful property disposals in recovering markets such as Romulus, Michigan. A 137,600 square foot industrial distribution building formerly utilized as a U.S. Post Office Priority Mail Center stood vacant on a 10-acre site. Built in 1978, this eyesore was costing taxpayer money in maintenance and was a liability to the community. Last year, the property sold in an auction with a sales price of \$3,100,000. Hopefully the new owner can restore the property and allow it to better serve the community.

Leveraging GSA's Exchange and Outlease Authority

GSA is leveraging our disposal and exchange authorities to harness the value of our federal assets. Some of the government's properties, in particular those that are older, may no longer effectively serve a federal need and can have significant upkeep and maintenance costs. At the same time, many of these facilities are valuable for other uses, especially when they are located in prime real estate locations.

For example, the Volpe Transportation Center in Cambridge, Massachusetts is located on 14 acres in a vibrant high-technology hub of the city. The six buildings on the property were constructed nearly 50 years ago and no longer adequately serve the mission of this facility.

Last year, GSA issued a Request for Information seeking creative ideas to transform this property in exchange for construction services for building a state of the art research technology facility. The response to the RFI was robust and GSA believes the interest in the site will fuel healthy competition in proposals for the site. The ultimate result of this exchange is expected to provide better space for government transportation research, as well as economic development opportunities and tax revenues for the local community.

In Southwest DC, GSA is leveraging the value of several buildings to fund new, highly efficient space for the agencies currently housed at those locations. Similar to the Volpe site, GSA is seeking developers who can provide construction and development services in exchange for GSA's Regional Office Building and the Cotton Annex. These services would be used to help consolidate about 1,500 regional GSA staff into the GSA headquarters office and renovate up to three historic buildings at the St. Elizabeths campus in Southeast Washington for the Department of Homeland Security.

Another example of GSA's innovative approach is the long-term lease of the Old Post Office Building in Washington, DC to the Trump Organization, which is transforming this high-value property into a luxury hotel that, once opened, will generate a positive cash flow for the government. The Trump organization is investing \$200 million in private sector capital into this 114-year old building, which will serve the local community, preserve the historic facility, and generate lease revenues.

Supporting Implementation of the Administration's National Strategy for the Efficient Use of Real Property

GSA supports the Administration's National Strategy for the Efficient Use of Real Property to reduce the size of the federal real estate inventory. This summer, GSA will be working with OMB to review the agency Reduce the Footprint plans. Through this effort, we will identify additional opportunities for colocation, consolidation, and reduction of space. This also will include the development of a government-wide pipeline of potential properties for disposition, exchange or outlease to meet the objectives of this policy.

In addition, GSA is creating and implementing enhanced analytical tools to help agencies identify the best opportunities for disposal, consolidation, and colocation. In addition, GSA has improved data quality and user experience in the Federal Real Property Profile, by has revising several data definitions and automating validation and verification tools. In FY2015, GSA will make additional improvements that will enable agencies to better prioritize actions to consolidate, co-locate and dispose of federal properties. The bottom line is that having the right data and management tools is essential to making good decisions.

Conclusion

In closing, I look forward to working with the Members and staff of this committee to improve the Federal government's management of its real property. In particular, I welcome the opportunity to work with you and offer GSA's support as the Committee works through any potential legislative efforts. We believe there are a number of opportunities to improve asset management across government, including through streamlining the disposal process, authorizing the retention of some sale proceeds, and supporting the investment of rent collections for capital improvements.

I thank the committee for the opportunity to testify today and look forward to answering your questions.