

**Statement of
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Before the Subcommittee on Federal Financial Management, Government
Information, and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate**

May 24, 2007

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you this morning to discuss with you the Department of Veterans Affairs' (VA) process for managing its Federal Real Property and capital assets, and the many initiatives VA has in place to sustain real property reform.

Before discussing how VA manages its Federal Real Property, I want to provide an overview of VA's capital asset inventory. VA maintains portfolios of both owned and leased assets and agreements to meet our organizational needs. As of May 10, 2007, VA owns 5,227 buildings and 32,635 acres, holds 1,133 leases, and maintains 871 asset-related agreements. This amounts to 143,779,810 square feet of owned space and 12,711,220 square feet of leased space (direct and GSA). VA currently is outleasing 5,141,229 square feet of previously underutilized VA space to generate revenue for enhanced veteran services. VA currently has 7,402,303 square feet of vacant space – 5 percent of the Department's overall gross square feet. VA continues to assess current and future real property needs through management initiatives and tools in the capital asset program to ensure the Department meets its infrastructure requirements in a cost effective manner.

VA's capital asset program manages and maintains VA's current and future assets according to Federal guidelines and requirements. The major elements of VA's asset management program are to: (1) have strategic vision; (2) manage what we have most effectively; (3) make prudent investments; (4) measure performance; and (5) the disposal of underutilized and non-mission dependent assets, which brings revenue for health care and other services for our Nation's veterans.

Strategic Vision

VA's Strategic Vision for Real Property Management is to promote the efficient and cost effective use of VA real property assets and to assure management accountability. With the majority of these assets supporting health care, this must be accomplished through the CARES (Capital Asset Realignment for Enhanced Services) process in order to meet the current and future healthcare needs of veterans in modern healthcare facilities. The CARES process is updated regularly to meet the evolving healthcare environment. VA continues to make significant progress implementing the CARES decisions of 2004.

Non-healthcare or non-CARES real property assets follow a similar evaluation process to match resources with current and expected demand.

Manage What We Have Most Effectively

The second key component of VA's capital asset program is to manage what we have most effectively. VA publishes its Asset Management Plan on an annual basis. The AMP details how VA complies with Executive Order 13327 and fully reflects the Federal Real Property Council's guiding principles and elements, which are essential for an effective federal asset management plan. VA's capital asset management program

emphasizes ensuring capital investments fully support the agency mission and strategic goals across all administrations within the Department.

VA uses a life-cycle approach to manage and maintain its assets. A life-cycle management approach develops and monitors asset performance using operational and financial criteria. This begins with formulation and the selection of VA investments and their execution. It continues with day-to-day operations and performance management of assets through their eventual disposal.

VA has employed two strategies for improved real property management in the past few years: 1) more effectively managing our inventory of assets for marginal improvements (without substantial investments) and 2) making selected capital investments to significantly improve our utilization. VA uses all available methods to reduce its portfolio of underutilized and non-mission dependent assets, including enhanced-use lease, sharing, transfer, re-use, like-kind exchanges, deconstruction, mothballing, demolition and sale.

Making Prudent Investments

For the third element of asset management, VA utilizes a multi-attribute decision hierarchy methodology to impose a disciplined approach to the decision-making prioritization processes for major capital asset investments. This ensures that all capital investments are based on sound business principles and – most importantly – meet our veterans' healthcare, benefits, and burial needs.

Based on the capital investment process for CARES, VA has 36 fully or partially funded major construction projects from fiscal years (FYs) 2004-2007. These include four new VA Medical Centers, two of which are in Orlando and Las Vegas where VA

does not now have inpatient hospital services. Of these 36 projects, North Chicago is physically complete. The status of the remaining is as follows:

- Construction documents prepared – 6
- Construction begun – 14
- Schematics/design development in process – 14
- One project was placed on hold awaiting further CARES study

In addition, there are two significant projects which have been funded with emergency supplemental appropriations – Biloxi and New Orleans – as well as the cleanup of the Gulfport campus destroyed by Hurricane Katrina. The total cost of all 38 projects is \$4.7 billion, and \$2.7 billion has been appropriated to date for CARES major construction requirements.

VA determines the necessary level of resources to maintain its assets through its sustainment model. The sustainment model is used within the steady-state or management stage of an asset's life-cycle. "Sustainment cost" can be defined as the provision of resources for maintenance and repair activities necessary to keep the current inventory from deteriorating.

One successful method VA uses to manage its underutilized property is its enhanced-use leasing program.

Enhanced-Use Leasing (EU)

The Department of Veterans Affairs uses a unique capital asset management tool called enhanced-use (EU) leasing. This program has brought significant cost savings, substantial private investment, new long-term sources of revenues, as well as jobs or tax revenues for State and local sectors. The authority to use this mechanism was originally

enacted in 1991, under sections 8161 through 8169 of title 38, United States Code.

Renewed in 2001, VA has authority to continue using enhanced-use leasing until 2011.

While this authority allows VA to lease land or buildings to both the public (i.e., state and local) and private sectors for up to 75 years, the use of this property must be consistent with VA's mission. Leased property may be developed for non-VA uses, and/or VA uses that will enhance the property. Traditionally, VA land and buildings were acquired and managed by utilizing appropriated funds.

Below are a few examples of successful property portfolio management through EU leasing.

Fort Howard, MD – Life Care Community

In the fall of 2002, Fort Howard inpatient care services were consolidated to other campuses within the VA Maryland Health Care System (VAMHS), allowing VA to transform the campus into a Life Care Community (LCC) through an EU lease. On September 28, 2006, VA executed an EU lease with Fort Howard Senior Housing Associates to finance, design, and develop the LCC, which will provide housing, recreation, medical, skilled nursing, and other health-related services to seniors. Veterans and their spouses will receive priority placement on all 1,300 units and discounts on 40 percent of units. In addition, the developer will replace the current VA outpatient clinic with a new facility to be owned and operated by VA, and will hold 10-acres for potential future use as a Maryland State Veterans home.

Through this lease, VA will provide additional affordable housing for veterans and senior citizens in Maryland, obtain a new 10,000 sq ft outpatient clinic, and eliminate our significant maintenance, repair, and utility costs associated with the aged Fort

Howard campus. This project will save VA an estimated \$1,500,000 in construction costs as well as a cost avoidance of approximately \$1,000,000 annually. Over 500 veterans have expressed an interest for placement in the LCC.

Leavenworth Mixed-Use Development

On August 5, 2005, VA signed an enhanced-use lease with Eisenhower Ridge Association (ERA) to renovate and to adaptively reuse 38 underutilized historic properties located on approximately 50 acres of land. This mixed-use development will provide services and accommodations relating to affordable senior housing, long-term care, transitional veterans housing with supportive services, long-term veteran housing, educational and community support facilities.

This lease will result in the adaptive reuse of buildings listed on the National Register of Historic Places as well as expansion of services to veterans. The project will also result in additional land (without historic buildings) to become available to the Leavenworth National Cemetery for additional gravesites for veterans and for a columbarium.

Measure Performance

VA uses performance metrics to evaluate and analyze how well assets are performing and VA policies and procedures are implemented in maintaining and improving the agency's assets. Aligned with the Federal Real Property Council performance measures of cost, condition, utilization and mission dependency, the VA capital portfolio performance goals are based on the Department's main objective to manage assets in a way that ensures resources are maximized, assets (including VA staff and veterans) are safeguarded, and all opportunities (public, private, or a combination of

both) are fully explored. The goals allow VA senior management to monitor the overall health of the Department's capital asset portfolio and provide for informed corporate decision-making. Senior management review of capital asset performance is accomplished at the Deputy Secretary's Monthly Performance Review.

VA Performance Metrics are:

- Percent of Space Utilization as Compared to Overall Space;
- Percent Condition Index;
- Ratio of Non-Mission Dependent Assets to Total Assets; and
- Ratio of Operating Costs per Adjusted Square Foot.

Using the above outlined performance measures and other valuable information, senior management are able to make informed portfolio management decisions.

Disposals

As noted earlier, VA uses every means available to dispose of unneeded assets. VA has disposed of 156 buildings since FY 2004, and 146 buildings (2.7 million gross square feet) are planned for disposal in FY 2007 and FY 2008.

Federal Asset Sales Initiative

Each year, the federal government sells personal and real property assets to the public, valued at billions of dollars. The Federal Asset Sales Initiative (FAS) was added to the E-Government initiative of the President's Management Agenda (PMA) to address the currently decentralized approach of federal agencies selling unneeded assets and provide related-asset sale information to the public.

VA is actively engaged in the Federal Asset Sales initiative. VA will continue to dispose of real property assets under the agency's existing authorities. VA is

coordinating with the initiative lead to ensure that all VA real property assets available for sale, residential, building, and land assets will be linked to the FAS web site.

Government Accountability Office (GAO) Recommendations

There are several challenges remaining in the area of Federal Real Property Reform, as discussed in FEDERAL REAL PROPERTY: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform (GAO 07-349). I'd like to discuss how VA is addressing: data reliability; underutilized real property; EU leasing authority; the maintenance and repair backlog; physical security; and underutilized real property disposal.

Data Reliability

Data reliability is always a challenge; however, VA is validating capital asset data now and has plans to enhance the existing data validation methods in the next year. VA's decision support tool, Capital Asset Management System (CAMS) provides the means and data to compare certain asset expenses to industry or commercial benchmarks for its leasing and energy programs. CAMS provides the ability to view data collectively across multiple fiscal years and systems, proving to be an invaluable tool for data validation.

Also in the area of data validation, VA's Management Quality Assurance Service (MQAS) audits internal controls related to capital asset management, compliance with Federal and VA policies and procedures, consistency with VA strategic goals and objectives, and effectiveness of operations. To date, MQAS has audited VA programs such as the non-recurring maintenance program and the EU lease program. Future plans include likely audits in the FY 2008-2009 timeframe in the following areas:

- Review of capitalized personal property inventory and accounting;

- Validation of data used to establish a baseline for implementing Executive Order 13423 that requires all federal agencies to achieve significant energy, environment, and transportation performance improvements;
- Validation of the data residing in VA's Capital Asset Inventory database;
- Identification of underused space potentially available for advantageous disposition;
- Review of claims process in regard to major and minor construction projects; and
- Leasing for community-based outpatient clinics.

Underutilized Real Property

While there are significant challenges with excess and underused buildings and land, VA is using innovative ways to deal with the situation in today's real estate market. The way to succeed is to find a "win-win" for the community and federal government. Reuse of federal buildings/land, such as outleasing through the enhanced-use lease program, allows for transfer of buildings from the federal to the non-federal sector without adversely affecting the local economy, community or VA facilities.

Enhanced-Use Leasing Authority

VA's EU lease program provides a proven method of leveraging VA's diverse real estate portfolio and market position, as noted by the two examples of successful EU leases mentioned earlier in my testimony. In addition, the program has brought significant cost savings as well as the realignment of under-performing property to produce the "highest and best use" return to veterans, taxpayers and the Government.

Maintenance and Repair Backlog

Like many other agencies, the VA has a large backlog of infrastructure projects, as mentioned in the GAO report. VA's total deferred maintenance needs are approximately \$5 billion dollars as supported by VA's current and comprehensive Facility Condition Assessment Report.

The Department is moving aggressively to address the current backlog by providing \$2.5 billion in funding to upgrade, maintain, or replace existing facilities; and fully funding the sustainment needs in the FY 2007 (\$517 million) and the FY 2008 (\$573 million) budget requests.

Physical Security

VA has made considerable progress in the area of physical security for federal real property assets, demonstrating leadership in multi-hazard protection of VA facilities. The following are VA accomplishments in this area:

- Developed physical security assessment methodology for VA facilities, September 2002;
- The Federal Emergency Management Agency requested VA assistance to evolve VA's security assessment process into a system suitable for both private and other public facilities;
- Beginning in FY 2005, included funding for physical security enhancements in major program project budget requests;
- Completed physical security assessments of 140 VA most mission critical facilities in 2006;
- Secretary concurred in VA Physical Strategies Report in May 2006; and
- Completed final draft of Physical Security Design Manual in December 2006.

Underutilized Real Property Disposal

As part of VA's continued CARES effort to realign its medical campuses to better meet the healthcare needs of veterans, VA has been conducting the CARES studies in pursuit of creating efficient, cost-effective and appropriately sized campuses thereby identifying enhanced-use leasing or disposal opportunities for any unused or underutilized property. The original 18 CARES site studies pursued evaluating outstanding health care issues, developing capital plans, as well as determining the best use for the underutilized and excess land and vacant buildings on each site. There were 9 sites evaluated for general reuse and 9 sites evaluated for comprehensive reuse.

Studies have been completed in New York, NY; Louisville, KY; Big Spring, TX; Walla Walla, WA; Montgomery, AL; Waco, TX; Muskogee, OK; Poplar Bluff, MO; White City, OR; St. Albans, NY; and Perry Point, MD. The study in Gulfport, MS ended due to Hurricane Katrina.

Conclusion

VA continues to evaluate its capital asset data elements for both validity and accuracy. VA strives to develop useful information to make informed decisions. The Department works with both Federal agencies and the private sector in determining best practices.

VA has processes to ensure dollars spent on capital assets make business sense and meet the goals of the Department, while aligning with the goals of the FRPC. VA also has processes in place to evaluate requests for leases and major equipment purchases. VA is attempting to better link real property initiatives with its capital planning process.

Throughout the process, VA has worked closely with Congress and the Office of Management and Budget and is committed to keeping members of Congress apprised of VA's efforts to improve property management and promote efficient business practices.

Thank you for inviting us to testify on the important subject of Federal Real Property. Thank you for your interest as we move forward to better performance and sustained reform, and I appreciate your continued commitment to our Nation's veterans. I will be glad to answer any questions that you or other Members of the Subcommittee may have.