Testimony of

E.J. Holland, Jr.

Assistant Secretary for Administration

U.S. Department of Health and Human Services

Before the

Subcommittee on Economic Development, Public Buildings, and Emergency Management

U.S. House Committee on Transportation and Infrastructure

May 15, 2013

Good morning Chairman Barletta, Ranking Member Norton, and members of this Subcommittee. My name is E.J. Holland, Jr. and I am the Assistant Secretary for Administration at the U.S. Department of Health and Human Services (HHS). I am honored to join you here today.

Under the leadership of Secretary Kathleen Sebelius, HHS is committed to saving taxpayer dollars through effective management of our real property assets, improving utilization through reduced space requirements, and pursuing alternative workplace strategies that increase utilization and reduce costs. HHS currently has over 4,100 real property assets; slightly more than 3,700 represent buildings that encompass over 53 million gross square feet. Over 2,700 of these buildings are owned, reflecting just under 32 million gross square feet; and the balance of just under 1,000 buildings are leased, reflecting slightly more than 21 million gross square feet. The majority of our leased assets are acquired through the General Services Administration (GSA). We work with GSA in acquiring leases to ensure that we deliver the most efficient and cost effective space to meet the HHS mission requirements.

After President Obama issued his June 2010 memorandum on "Disposing of Unneeded Real Estate," HHS accelerated its efforts to improve utilization of existing assets. Our efforts resulted in identified savings and cost avoidance of over $23 million between FY 2010 and FY 2012 through energy savings, disposals, consolidations, and improved utilization. One policy we immediately began to explore was improved utilization rates for office space.

Most of HHS real property portfolio falls into three major categories of space: Offices, about 36 percent; Laboratories, about 33 percent; and Hospitals and Clinics, about 15 percent. Over 15 million gross square feet or about 71 percent of our leased inventory is office space.

We saw this as an opportunity and, in the Fall of 2010, HHS initiated working sessions among our operating divisions to develop strategies to improve office utilization. In addition to an in depth analysis of our current portfolio, we compared ourselves to office utilization at other federal agencies and in the private sector. We also considered the emerging emphasis on teleworking in the workplace. In addition, working with GSA we identified prospectus lease requirements anticipated through 2014 and projected their impact~~s~~ on our real property portfolio. In May 2011, we formally issued an office utilization rate policy that reduced authorized useable square feet per person on average to 170 including office and office support space. This policy replaced the previous situation of 215 useable square feet per person. To assist our operating divisions in implementing the policy, in October 2011 we issued detailed implementation guidance. The new policy requires the submission of housing plans for all renovation and construction projects, lease acquisitions, and consolidations including replacement and succeeding leases. These housing plans are reviewed and concurred with by both the HHS Senior Real Property Officer and the HHS Chief Financial Officer as represented by the Office of Budget. The 170 square foot utilization policy for office and related space is based on total useable square feet occupied by an HHS tenant plus a pro-rata share of any joint use space. The policy allows exceptions for mission driven requirements typically not associated with office space. Examples would be evidence or weapons storage in Inspector General space or laboratory space for handling specimens in Food and Drug Administration field offices.

Even before HHS formally issued its 170 square foot utilization policy, we began looking at opportunities within existing projects to improve space utilization. One specific opportunity we explored in early FY 2011 was the Parklawn replacement lease. The replacement lease originally was planned for 2,828 occupants in 772,553 useable square feet for a calculated utilization rate of 273. The revised schedule for the lease replacement coincided with several major lease expirations within the Department. In early spring 2011 HHS made the decision to consolidate the Agency for Healthcare Research and Quality, the Substance Abuse and Mental Health Services Administration, the Indian Health Service, and the Health Resources and Services Administration into the Parklawn replacement lease. The current planned facility will house 4,517 people in 823,924 useable square feet for a calculated utilization rate of 182. Over the term of the lease the Department expects to save in excess of $215 million in rent costs associated with the four operating divisions.

Concurrently, in the summer of 2011, a number of prospectus level leases that were in the clearance process were revisited based on the 170 utilization rate policy for Office and Related Space. Housing plans for all these replacement leases were updated based upon our review. We project our policy has reduced these major office lease space requirements by about 650,000 useable square feet.

In April 2011, HHS agreed to work with GSA's Office of Client Solutions as part of their proposed Client Portfolio Planning initiative aimed at working with agencies to find long-term costs savings. HHS became one of the pilot agencies and the initial plan focused on reaching the President's goal of $3 billion in savings by the end of FY 2012. GSA worked with the Department and our four landholding operating divisions to optimize our real estate footprint. In addition to savings that we had already identified, GSA looked for targeted opportunities for potential additional savings in managing our portfolio. The original plan identified eight opportunities. Examples were opportunities to optimize lease costs in favorable markets, benchmarking operating costs and pursuing energy efficiencies and renewable energy strategies. By September 2012, six of the opportunities identified in 2011 were implemented or complete.

We continue to work with the GSA team to review potential savings annually. We now are working with GSA to develop a long-term plan that aligns the HHS National Capital Region real estate portfolio with leadership's long range business goals. This plan will change the Department's approach to real estate from a transactional model that manages each separate asset individually to one that takes into account Department-wide planning and goals. The process will begin with evaluation of enterprise strategies and end with several consolidation scenarios, with estimates of the financial costs for each scenario. The goal is to evaluate potential strategies for consolidation and lease replacement over the long term to increase overall efficiencies and utilization of space.

We also have initiated a project with GSA's National Engagement for Workplace Services to create an alternative space-efficient workplace as a pilot within the Hubert H. Humphrey Building. The Office of the Chief Information Officer (OCIO) is consolidating employees currently located in multiple leased locations throughout the National Capital Region, moving them into the Humphrey Building. Doing so will result in a more effective and collaborative working environment for the OCIO team. This consolidation requires the CIO to rethink how office space is designed and used. HHS is working with GSA to better understand how CIO's staff currently uses space and to propose a progressive design that increases utilization and reduces the footprint. The final product of this engagement will recommend changes to the CIO's real estate strategy and provide concept drawings that serve as a basis for the final space plan.

Finally, in response to OMB Memorandum M-12-12, Section 3, which established the "Freeze the Footprint" policy, and the implementing guidance, issued by OMB this year, we are in the process of developing an updated Real Property Cost Savings and Innovation Plan to support OMB's "Freeze the Footprint" initiative. This plan looks at all square footage changes related to office and warehouse space in the next three years including new construction and renovation projects, lease consolidations, replacement and succeeding leases, as well as disposals of owned and leased assets. We are using tools we already have in place to capture data from the HHS operating divisions, including our real property database and our Three-Year Timeline program that reflects a three year look ahead of planned activities. This data and planned outcomes will be incorporated into our plan to demonstrate the steps we are taking to use our real property assets most efficiently.

HHS is committed to generating savings for the taxpayers through better utilization of its real property assets. We continue to work with our operating divisions to manage both our owned and leased real property, while also pursuing new workplace strategies to better utilize our portfolio. Additionally, we work closely with GSA to identify opportunities for improved efficiencies in our leased portfolio whether through consolidations, improved utilization costs, or innovative workplace solutions. This effort requires Department-wide cooperation and our accomplishments to date are the product of that cooperation.

Thank you for the opportunity to appear here today. I welcome your questions.