

**STATEMENT OF
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**BEFORE THE HOUSE COMMITTEE ON TRANSPORTATION & INFRASTRUCTURE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, AND
EMERGENCY MANAGEMENT**

“SAVING TAXPAYER DOLLARS BY REDUCING FEDERAL OFFICE SPACE COSTS”

March 1, 2016

Introduction

Good morning Chairman Barletta, Ranking Member Carson, and Members of the Committee. My name is Norman Dong, and I am the Commissioner of Public Buildings for the U.S. General Services Administration (GSA). Thank you for inviting me to testify on GSA’s work to save taxpayer dollars by reducing federal office space costs.

There is a simple way of thinking about our real estate work at GSA. We support our federal tenants in meeting their space requirements, and we must do so in a fiscally responsible way. This means balancing our commitment to our tenants with our commitment to the taxpayer. At GSA, we recognize that excess spending on real estate comes at the expense of deficit reduction as well as mission critical activities at the agency level. Our challenge, and our responsibility, is to help our tenants reduce their footprint and spend less on rent so they can focus their limited resources on the agency’s mission.

To execute this strategy, GSA is focusing on four key priorities:

- Supporting our federal tenants in their efforts to not just freeze, but actually reduce their footprint;
- Promoting far greater competition in our leasing activity;
- Taking a more aggressive approach to managing our underutilized assets; and
- Delivering capital construction projects that promote agency consolidation into federally owned facilities.

Reducing the Federal Footprint

There is broad recognition across the federal government that excess spending on real estate comes at the expense of more mission critical activities. Over the past few years, GSA has supported OMB in the government-wide effort not just to freeze, but now reduce the federal footprint. Since FY2012, we have seen the federal footprint for office and warehouse space decline by 24.7 million square feet. As current leases expire over the next few years, we see much more opportunity for agencies to collocate, consolidate, shrink their footprint, and reduce their rent spending.

The Consolidation Activities Program is an important part of GSA's efforts to improve agency space utilization by reconfiguring and renovating government-owned and leased buildings. GSA appreciates the support that Congress has provided through funding for the Consolidation Program, and there are many examples of how agencies are reducing their footprint and realizing significant rent savings through this program.

For example, using \$1.5 million of consolidation funding, the Equal Employment Opportunity Commission (EEOC), which currently occupies 22,834 usable square feet of leased space, will be able to move into the Fallon Federal Building in Baltimore, Maryland. The consolidation will reduce the EEOC's footprint by approximately 7,743 usable square feet, save the GSA \$763,000 in annual private sector lease costs, and reduce taxpayer costs and EEOC's annual rent by \$322,000. The project will also reduce the office utilization rate by 42 percent, from 208 to 121 USF per person.

GSA is also working in partnership with the Administrative Office of the U.S. Courts to execute consolidation projects. Using \$2.2 million of consolidation funds, the U.S. Probation Office, which occupied 54,000 usable square feet of leased space, completed its move to the John C. Kluczynski Federal Building in Chicago. This relocation eliminated the lease, along with \$2.4 million in annual private sector lease costs, and saves U.S. Probation approximately \$1.2 million in annual rent. The project also helps meet the Court's space reduction effort through reducing the office utilization rate by 59 percent, from 418 to 172 usable square feet per person.

Funding provided over the past few years is supporting dozens of agency consolidation projects that will reduce the federal footprint by more than 1 million square feet and save agencies more than \$76 million in lease cost savings each year. The President's budget requests \$75 million to support additional consolidation projects in FY17, and we will continue to see strong agency demand to implement future projects with compelling payback periods and significant footprint reductions.

Promoting Far Greater Competition in our Leasing Activity

Our focus on the federal footprint considers not just the size of the footprint, but also the cost of the footprint, which is why our approach to leasing is so important. While GSA is continuing to emphasize the importance of federally owned space, we will always have a significant amount of leased activity in the federal portfolio. To get the best rates for our tenants and for the taxpayer, we need to maximize the amount competition in our leasing activity.

In previous hearings, we discussed how GSA is working to promote greater competition in the leasing process. Today, GSA continues to improve upfront planning in order to reduce our dependency on holdovers, extensions, and other stay in place strategies that compromise our ability to capitalize on favorable rates that we still see in many markets. 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.

Over the past year, GSA has been taking a far more aggressive approach in working with each of our regional offices to examine the pipeline of expiring leases, to secure agency space requirements early on, and to promote greater competition for these follow-on transactions. As a result of this better longer term planning, your committee over the next couple of years will be receiving many more lease prospectuses as GSA works earlier in the process to avoid costly holdovers and extensions.

These efforts are making a difference. During FY15, the number of holdovers across the GSA inventory declined 25 percent compared to the prior year. Since 2010, the number of short-term extensions has decreased by 32 percent. And last year, GSA negotiated lease contracts for a national net present value of 13.7 percent below market rate.

Managing our Underutilized Assets More Aggressively

GSA is taking a far more aggressive stance to shed our underutilized assets. We face significant operating costs associated with maintaining properties that are no longer serving a valid mission requirement. We also see a significant backlog of capital repair requirements in these underutilized buildings – repairs that we will not be able to address in the current budget environment. We recognize that many assets that no longer have utility to the federal government may reflect far more value to the private sector.

There are many great examples of how we are identifying more productive uses for our underutilized assets:

- GSA is currently in the process of finalizing the sale of the Metro West facility in west Baltimore. The Metro West facility, occupying about 11 acres, will offer an opportunity to revive an important link between west Baltimore and downtown.
- Also in Baltimore, GSA auctioned off the Appraisers Store, an underutilized eight-story masonry and brick building located blocks from the Inner Harbor, for \$8.2 million.
- The Seattle Federal Reserve building was built in 1950 and was home to the Seattle Reserve until 2008. The bank then moved to a new facility, leaving the 90,000 square foot, four-story building vacant. The property was successfully sold through a public online auction for \$16,000,000, and will likely be renovated and used for a 30 story office building.
- In Cambridge, MA, GSA is working in partnership with the U.S. Department of Transportation to exchange a portion of the 14 acre Volpe National Transportation Systems Center campus for a new headquarters building on that same site. GSA has established a list of qualified respondents pursuant to a Request for Qualifications, and we are gearing toward releasing a Request for Proposals to the qualified respondents in the near term.

Over the past year, GSA reduced the federal inventory by 3 million square feet. Partnering with other federal agencies, in FY 2015, PBS disposed of 173 assets by sale or transfer, which generated \$56 million in sales proceeds.

While we recognize some recent successes, we also see significant opportunity on the horizon. Working through our regional offices, GSA is developing a disposal pipeline that now allows us to be far more transparent about those assets that we have identified

for potential disposal, exchange, or outlease. By establishing greater discipline within GSA to identify and plan for specific properties that should be excessed, we are fostering greater accountability within GSA for meeting the project milestones required to move these properties off the books.

Delivering Capital Construction Projects that Leverage Federally Owned Facilities

GSA recognizes the significant benefits to promoting the use of federal assets in addressing the space requirements of our federal tenants. There are significant economic benefits of reducing our reliance on expensive leases and consolidating into federally owned buildings. In addition, co-locating agency components that are distributed across multiple locations into a single federal facility can also improve the execution of agency mission through increased collaboration and coordination across agency components.

For example, the Consolidated Department of Homeland Security (DHS) Headquarters at St. Elizabeths remains one of GSA's highest real estate priorities. The St. Elizabeths project will consolidate more than 50 individual DHS leases and millions of square feet of leased space to one federally owned campus. At the same time, consolidating headquarters functions at St. Elizabeths will enhance the effectiveness of the DHS mission while redeveloping an underutilized asset that is already in the federal government real estate portfolio.

In FY 2016, GSA and DHS released the Enhanced Plan for St. Elizabeths, which eliminates more than \$800 million in construction costs, significantly increases utilization of the historic campus, shortens the project timeline by five years, and saves taxpayers more than \$1 billion. We very much appreciate Congressional support for GSA's FY16 request for St. Elizabeths. If Congress provides the \$267 million requested in the President's FY 2017 Budget Request, the project will be 80 percent complete, and GSA will only have two more years of funding requests, with project completion by FY 2021.

GSA is also working to support the construction of a new Federal Bureau of Investigation (FBI) Headquarters in the National Capital Region. The President's Budget Request for FY 2017 for GSA included \$759 million for the FBI Headquarters. This new facility will consolidate FBI employees from 13 locations across the National Capital Region within a new, modern, and secure facility that is designed to enhance FBI's national security, intelligence, and law enforcement missions.

GSA's FY17 request for the FBI Headquarters, paired with \$646 million in the FBI's FY 2017 construction budget, as well as the value of the J. Edgar Hoover Building, the FY

2016 appropriation, and the prior year resources, will allow GSA to award a contract for design and construction of a new FBI headquarters by the end of this calendar year. This funding will build on what was provided to GSA and FBI in the FY 2016 Omnibus.

The new FBI Headquarters facility will be located in one of three previously announced sites: Greenbelt, Maryland; Landover, Maryland; or Springfield, Virginia. The proposed facility will support information sharing, collaboration, and integration of strategic priorities, and will allow the FBI to realize significant mission synergies as a result of co-location. The facility will accommodate approximately 11,000 personnel and include state-of-the-art IT infrastructure that is key to FBI's national security mission.

Conclusion

Thank you for providing this opportunity to speak on our progress at GSA. I look forward to working with Members of this committee and your staff to improve the federal government's management of its real property and save taxpayer dollars. I am happy to answer any questions you might have.