

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

**September 28, 2016**

Good morning, Chairman Barletta, Ranking Member Carson, and Members of the Committee. Thank you for the opportunity to appear today to discuss the Department of Veterans Affairs (VA) leasing program, which is an integral part of our ongoing mission to care for our Nation's Veterans. VA continues to develop its real property portfolio through the provision of state-of-the-art facilities that meet the needs of Veterans and allow for the highest standard of service. VA is committed to improving its internal leasing practices, as outlined in the Government Accountability Office's (GAO) report on VA Real Property, and its partnership with the General Services Administration (GSA), so VA can meet increased workload demands, further advances in medicine, adhere to evolving Federal requirements, and offer services closer to where Veterans live. Congress can help VA deliver timely and exceptional care to Veterans by authorizing the 24 major medical leases that are pending congressional action.

**VA Strategic Objectives**

One of VA's strategies, as stated in the Department's fiscal year (FY) 2014-2020 Strategic Plan, to improve access and quality of care is to build a flexible and scalable infrastructure through improved organizational design and enhanced capital planning. The size of the Veteran population may be decreasing, but the demographics and

preferences are increasing in complexity. VA's infrastructure – organizational structure, equipment, and facilities – must continue to be flexible and scalable in order to better serve Veterans of today and tomorrow.

As outlined VA's FY 2014-2020 Strategic Plan, VA continues capital planning efforts to provide safe, secure, modern, and sustainable infrastructure, and enhance capital planning efforts that increase the flexibility of VA's capital infrastructure to accommodate integration of services and promote sharing of physical and virtual space within and between VA and its partners. VA is also expanding virtual or "connected" health benefits and services, which may reduce our dependency on physical infrastructure.

### **VA Real Property Portfolio**

VA is the owner, tenant, and operator of one of the largest health care real estate portfolios in the United States. In addition to real estate holdings for the provision of health care services, the Department maintains facilities for the Veterans Benefits Administration (VBA) and national cemeteries that are under the management of VA's National Cemetery Administration (NCA). Leasing has been and continues to be an essential strategy for VA's capital portfolio management and is an important tool that allows VA to develop infrastructure and provide services where Veterans need it most. Leasing allows VA to quickly and effectively adapt its infrastructure to accommodate for changes in medical technology, workload (both inpatient and outpatient), new programs that assist Veterans, and ever-shifting demographics. Leasing provides flexibility and allows VA to respond quickly when and where a need arises.

Overall, VA maintains approximately 155 million square feet in 6,300 owned buildings and more than 33,000 acres of land. Approximately 25 million square feet of space has been acquired through over 1,968 leases for the Department -- ranging in term length from a few months to 20 years. VA's portfolio of nearly 180 million square feet is one of the largest in the Federal Government.

## **Lease Delegation Authority**

VA, through authority that is delegated on a project-by-project basis by GSA, enters into lease agreements for medically-related space or infrastructure needs in locales across the Nation and largely relies on GSA for procurement of all non-medical space. VA does not have the direct authority to procure leases for terms of up to 20 years while obligating on an annual basis, so the Department relies on its partnership with GSA to obtain individual delegations to make operating leases feasible. VA works closely with GSA under the lease delegation process and is able to leverage GSA's authority to meet the needs of our Veterans.

## **VA's Mission Needs**

VA's mission represents the driving force in the Department's use of leasing to acquire space. Leasing enables VA to locate services where needed and adjust to changes in the health care delivery landscape in order to meet the constant demographic shifts and changing service demands of our Nation's Veterans. One of VA's primary goals achieved through leasing is the provision of access points for service where Veterans are located. Veterans are mobile and have evolving health care needs, which requires VA to respond quickly when and where a need arises. Leasing provides more flexibility, in lieu of constructing owned assets. There are shorter time frames to execute leases and leasing provides VA maximum flexibility to efficiently adjust its infrastructure to meet current and future needs.

## **GAO 2016 Leasing Report**

GAO's June 2016 report, "VA Real Property: Leasing Can Provide Flexibility to Meet VA needs, but Should Demonstrate the Benefits" stated that "the Department of Veterans Affairs leases major medical facilities to benefit from shorter time frames to open a facility and to attain flexibility to relocate. These factors may help VA to meet its

needs, such as improving facility compliance with standards and increasing Veterans' access to care and services." As stated in VA's June 14, 2016, response, the Department is pleased that GAO recognizes the important need for medical leasing and the flexibility that leasing provides. As stated in the report, leasing also allows VA to align with changing health care needs. The report highlights the improvements that VA has made while operating under the GSA lease delegation processes and suggests that other agencies implement similar processes. GAO's report also acknowledges that VA has a documented process in place to estimate lease costs and explain those costs.

GAO's recommendation stated that VA needs to assess the benefits of major medical leasing and that VA should use that information in the annual budget submission. VA agrees that it is important to provide this information and concurred with the recommendation. To address the recommendation, the Department will further document why major leasing is chosen as the preferred option to obtain facilities for Veterans and will state the benefits gained by VA and Veterans. This information will be presented in future annual budget submissions as part of the published Strategic Capital Investment Planning (SCIP) process long-range plan.

### **VA's Strategic Capital Investment Planning (SCIP) Process and Lease Costs**

Since 2012, the need for leased space to support VA's mission in a particular location is identified through the SCIP process. The SCIP process enables VA to improve the quality, access, and cost efficiency of the delivery of VA benefits and services through modern and relevant infrastructure that matches the location of current and future demand. As an integral part of the SCIP process, VA systematically evaluates all proposed capital investments, including leases, based on how well the proposals 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 where 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.

In line with the SCIP process, VA evaluates the decision of whether to build or lease. Projects considered for 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 alternatives 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 medical 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 or leasing a new facility. In most cases, it is more cost effective to build than lease for large inpatient and specialty care projects over a 30-year building lifecycle. However, in many cases, outpatient and ambulatory services can be done more efficiently using leasing, as leasing provides 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. Ultimately, the cost to obtain leased space is driven by the market. VA competitively bids leases and actual rental rates are determined through full and open competition. The rates are also validated by fair market value assessments or independent cost estimates prior to lease award. VA also works with GSA to ensure all leases meet the operating lease requirements per Office of Management and Budget Circular A-11, Appendix B, including the requirement that "the present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the beginning of the lease term."

## **Leasing Process Improvements**

In order to better align with the GSA lease delegation process, VA has implemented a series of improvements to its leasing processes. Many of these improvements were acknowledged by GAO. VA has worked to align building requirements to private sector health care industry specifications, while continuing to meet Federal minimum occupancy standards. VA pays for non-recurring enhancements and Government-specific features upfront, instead of spreading it out over the lease term. VA is also implementing standardized clinical design prototypes to reduce timeframes for preparing conceptual designs for VA clinics. VA has also implemented a thorough internal peer review process to ensure that complete and accurate delegation requests are submitted to GSA. VA continues to identify opportunities to improve the leasing process and is open to suggestions for ways to better serve Veterans.

### **Future Leasing Plans**

VA plans to continue leasing facilities as an efficient means to serve Veterans. The Department has 24 major medical leases that are pending Congressional authorization, many of which were originally submitted to VA's authorizing committees almost 3 years ago. The pending major medical facility lease projects will replace, expand, or create new outpatient clinics and research facilities and are critical for providing approximately 2.7 million appointments for Veterans annually and enhancing our research capabilities nationwide. Without authorization from Congress, VA cannot begin work to secure needed leased space to meet the needs of Veterans seeking VA healthcare. Failure to receive authorization will have a growing, and worsening effect on Veteran access to care nationwide, as leased VA medical facilities may be forced to close and new and/or expanded facilities may not open.

Once authorizations are received, VA will begin working with GSA to obtain delegations and also begin the process to execute the leases. Additionally, this committee will soon receive eight VA leases for resolution. These leases were authorized by the Veterans Access, Choice, and Accountability Act of 2014; however

they exceed the GSA Prospectus threshold and therefore require Committee authorization by resolution. Once the resolutions are passed and GSA is provided the authority to grant delegations for the eight leases, VA will be able to move forward with the solicitation process to procure the needed space. The Department is also in the process of identifying new and replacement lease projects through the SCIP process for inclusion in VA's FY 2018 budget request. In line with GAO's recommendation, VA will implement improvements to the lease prospectus for beginning with the FY 2018 budget request.

## **Conclusion**

VA understands it has the responsibility to manage all projects efficiently and to be a good steward of the resources entrusted to VA by the American people. VA continues to modify leasing procedures and planning processes resulting in the improved execution of leasing projects. VA will continue to enhance its leasing processes by identifying and addressing any organizational, policy, or procedural constraints that limit our ability to develop cost-effective, medical facility leases.

The Department also bears the sacred responsibility to provide timely and exceptional care to our Nation's Veterans. We have taken on the challenge of updating our aging infrastructure to allow for flexibility to meet increased workload demands; changing Veteran patient demographics; advances in medical technology; new complex treatment protocols and advanced procedures; and deliver patient-centered care expeditiously. The 24 leases pending authorization are a part of VA's plan to update our aging infrastructure. If Congress fails to provide lease authorizations for the 24 pending leases - some dating back to fiscal year 2015 requests - VA's ability to provide Veterans with timely and exceptional care will be impeded.

VA will continue enhancing its partnership with GSA to ensure that through the delegation process, VA is able to continue leasing space to serve Veterans. VA will also continue to meet with Congressional delegations to discuss these projects to keep them

apprised of the status, including regular updates to the Congressional Committees to ensure they are fully informed of the progress of VA's lease projects. We are eager to work with Congress to ensure all necessary major medical leases are authorized so VA can improve the timely delivery of exceptional medical care.

Mr. Chairman and Members of the Committee, this concludes my statement. Thank you for the opportunity to testify before the Committee today. I would be happy to respond to any questions you may have.