

7. FEDERAL REAL PROPERTY

The Federal Government owns and leases an extensive portfolio of real property to support execution of the Federal missions, and it is critical that Federal Agencies effectively manage those assets. The updated real property agenda expands the Government's focus to-date on managing the real property portfolio to include obtaining key data on assets to ensure that the right investment and divestment decisions are made. Aligned with the President's Management Agenda, this real property agenda provides a roadmap for agencies to strengthen stewardship, improve service to the taxpayer, and leverage real property. To achieve these objectives, agencies will increase focus on creating standard business processes and data definitions in the real property arena, identifying opportunities to share common business application tools, and improving the overall management of the portfolio.

The Federal portfolio of real property assets is diverse, has an average age of more than 47 years, and as with any portfolio, requires significant upkeep. Agencies invest billions of dollars in the operation, repair and alteration of existing assets and construction of new assets necessary to meet Federal mission requirements. It is important to reinvest in the Federal portfolio at the appropriate level. Deferring necessary maintenance and repair can result in higher outyear costs. Deteriorated condition or the failure of Federal real property can affect the efficiency of agencies' capability to deliver their missions and could potentially inhibit economic growth and lead to divestiture. The Administration's initiatives will ensure that agencies have the information necessary to make the right decisions to maintain their assets and have the right type and amount of assets in place to ensure mission capability, manage costs, and serve taxpayers.

Overview of the Federal Inventory

The Federal inventory of buildings contains a wide range of assets—office buildings, warehouses, hospitals, service buildings, and land ports of entry, among several other building types required to implement agencies' missions. The Department of Defense manages the largest domestic building portfolio, followed by the Department of Veterans Affairs and the Department of Energy. The General Service Administration (GSA) manages approximately 50 percent of the office space in the portfolio, providing office space for most Federal Agencies.

The largest building type—office space—comprises 21 percent of the total square footage of the building space. Of the total office inventory, leased office space comprises 36 percent (on a square foot basis) of all office space and is 67 percent of total reported office building expenditures. By continuing to emphasize capital planning, improving

data quality, and implementing legislative reforms, the Federal Government could better optimize leased and owned building space to improve mission support and reduce costs, as discussed later in this chapter.

The Government's real property inventory also includes structures, the most numerous of which are utility systems, roads and bridges, navigation and traffic aids, miscellaneous military structures, and parking structures. Divestiture, through sale or demolition where operationally feasible, is often the most appropriate method to control the cost of the structure portfolio.

Fifteen Years of Progress and Improvement

Over the last 15 years, the Federal Government has made significant strides in identifying the full range of real property within the Federal inventory, improving the asset management planning process, measuring performance of the assets, leveraging assets to reduce the Federal footprint, and disposing of assets that no longer meet the Federal need.

In February 2004, Executive Order 13327, "Federal Real Property Asset Management," tasked agencies with creating the first, detailed Government-wide inventory of buildings and structures under Federal control. Prior to that, the best estimation of the number and value of Federal assets was garnered from Government-wide financial audit property, plant, and equipment reporting. Much of the high-value, easy-to-dispose real property assets have largely left the Federal inventory. During the 2004-2009 timeframe, the Office of Management and Budget (OMB) utilized a Management Agenda "scorecard" methodology to measure agency success in achieving the Administration's management agenda. In the area of real property, OMB expected agencies to achieve milestones that included the use of data and achievement of disposal targets. Between 2004 and 2009, agencies completed the first inventory of assets, established agency-specific asset management plans, and disposed of thousands of assets with an aggregate replacement value of more than \$5 billion. The vast majority of these disposals were demolitions of assets on Federal campuses for which there was no marketable return, so the main benefit was reduced operating costs.

From 2013-2015, agencies disposed of 24.7 million square feet under the "Freeze the Footprint" policy. This averages to approximately 8.3 million square feet annually, with an estimated gross cost avoidance of about \$100 million per year. The "Reduce the Footprint" (RTF) policy, in effect since 2015, resulted in the disposal of an additional 16.3 million square feet from 2016 through 2018. Executing identified disposals is largely predicated on availability of discretionary agency funds necessary to

complete remediation, relocation, and disposition, and enactment of necessary statutory fixes to aid in the disposal of unneeded assets. To aid in achieving these ongoing goals, the Administration proposes legislative fixes to streamline the disposal of unneeded assets. For example, current statutory prohibitions on the disposal of certain pieces of property mean that the Government must continue to pay to maintain assets it no longer needs. In other instances, the Government wishes to dispose of property, but local stakeholders have impeded disposal for years.

In the early years of these more aggressive real property efforts, agencies were successful in disposing of the “low-hanging fruit”: those assets without high-cost environmental contamination requiring remediation, those without stakeholder interests prohibiting disposition, and those empty facilities with private sector marketability. High value disposals, such as San Francisco’s Presidio via transfer, were completed early in the effort to improve focus on real property. However, GSA, the Government’s disposal agent by statute, generated an average of only \$53 million in annual gross proceeds through public and negotiated sales of both GSA’s and other agencies’ property during 2009–2013. To increase annual sales proceeds, the Government would need to identify and sell larger, difficult-to-market, and politically contentious properties.

In recent years, agencies have expanded their focus on managing their entire portfolios strategically to gain efficiencies and improve mission performance. Agencies have established agency-specific design standards for space utilization, set explicit targets to reduce the amount of unneeded real property that agencies retain, and developed and implemented new analytical tools.

Administration Initiatives to Optimize the Portfolio to Achieve the Mission and Manage Costs

The Administration’s multi-pronged approach continues to build on the historic progress made over the last 15 years to improve the management of Federal real property, while also recognizing that new, transformative authorities and reform initiatives are necessary to achieve the next level of accomplishments and achieve an optimized portfolio. The Administration is taking necessary administrative action, as well as proposing legislation, to enable the optimization of the Federal real property portfolio. Under this leadership, agencies are making smart decisions to reduce their square footage and consolidate into federally owned space, such as the Immigration and Customs Enforcement consolidation into the Varick Federal Building proposed in the 2021 Budget, resulting in \$13 million in reduced lease payments to the private sector and \$7 million in annual agency rent savings. The ongoing administrative initiatives and legislative proposals reflected in the 2021 Budget include:

Federal Real Property Council. OMB issued Memorandum M-18-21, “Designation and Responsibilities of Agency Senior Real Property Officers,” in July 2018 to reconstitute the Federal Real Property Council (FRPC), comprised of agency Senior Real Property Officers and empowered to provide comprehensive program governance Government-wide.

The FRPC’s objective is to provide the Administration with recommendations on the strategic direction over the Government-wide approach to optimizing the real property portfolio to support mission success, manage costs, and help Federal managers provide the best value for the Government and taxpayer. The FRPC is also working to implement the requirements of recently enacted legislation, including the Federal Assets Sale and Transfer Act (P.L. 114–287) and the Federal Real Property Management and Reform Act (P.L. 114–318).

Issuance of OMB Capital Planning Policy. In November 2019, OMB, in coordination with the FRPC, issued Memorandum M-20-3, Implementation of Agency-wide Real Property Capital Planning, to ensure that agencies consistently implement sound capital planning practices to optimize the portfolio to achieve the mission cost-efficiently. The Memorandum also provides detailed guidance to assist agencies in implementing the Capital Programming Guide in OMB Circular A-11. The capital planning requirement provides a standard that agencies will use for establishing a consistent, repeatable methodology for allocating financial resources to optimize the portfolio and to achieve mission cost-efficiently. The desired outcome of the Memorandum is to elevate visibility and improve planning for real property so capital plans will be based on clearly articulated requirements and objective analysis of life-cycle options, including disposition of unneeded assets, so that the Federal Government has the right type of property, in the right amount, at the right location, at the right cost, and in the right condition to support the diverse mission requirements of the agencies.

Revisions to OMB Circular A-45 Rental and Construction of Government Housing. On November 25, 2019, OMB released OMB Circular A-45, Rental and Construction of Government Housing, which outlines Government-wide policy for civilian Federal employee housing. This was the first update to the Circular since 1993. The two primary objectives of the revision are moving the program toward financial sustainability and ensuring the right housing is built as the demographic composition of the Federal workforce changes. These changes will ensure the housing stock effectively and cost efficiently houses Federal employees.

Revised National Strategy for Real Property. OMB issued the National Strategy for the Efficient Use of Real Property in 2015 to build upon OMB’s Freeze the Footprint policy’s success in reducing agency portfolios and reducing costs. The RTF policy, focused solely on office and warehouse facilities, reduced the baseline by 16.3 million square feet from 2016 through 2018. In line with the President’s Management Agenda, the FRPC provided OMB with recommendations to revise the National Strategy to emphasize the application of a consistent Government-wide real property capital planning process, creating standard business processes and data definitions in line with the Administration’s Cross-Agency Priority Goal on Sharing Quality Services and improved transparency, and addressing other issues identified in audit reports. OMB expects to issue a revised Strategy early in calendar year 2020.

Federal Capital Revolving Fund. The Administration's proposal to establish a Federal Capital Revolving Fund is a new and innovative way to budget for the largest civilian real property capital construction projects, valued at more than \$250 million. The Budget includes \$10 billion in mandatory resources to seed the Fund to execute these vital efforts. This Fund will provide the necessary upfront amounts to execute projects and then require agencies to repay those funds over 15 years, similar to how State capital budgeting occurs, while conforming to a Federal cash budget environment. Without enactment of the Fund, agencies will continue to turn to more costly solutions to meet some of these large requirements, including operating leases, to avoid the upfront cost requirement associated with Federal construction. Further, since projects executed via the new Fund would be paid through annual operations over a 15-year period, Federal decision-makers are incentivized to fund only those projects with the highest return on investment and mission priority to protect taxpayers. Providing budget resources through the Fund will enable agencies to prioritize real property actions that result in lower long-term costs for taxpayers. The 2021 Budget again proposes using \$288 million from the new fund for the renovation and expansion of a key National Institute of Science and Technology facility in Boulder, Colorado, as the priority project. The Administration transmitted to the Congress in June 2018 a legislative proposal to establish the Fund and looks forward to working with the Congress to enact this implementing legislation.

Disposing Government Property Directly to the Market. The current process for disposing of unneeded Federal real property is long, convoluted, and results in diminished returns to taxpayers. Title 40 of the U.S. Code requires agencies to screen property disposals for at least 12 discrete public benefit conveyance requirements prior to taking assets to market for sale. The average disposal timeframe is more than 12 months, unnecessarily long and at a time where the Government continues to carry the operating costs. Additionally, certain nonprofit institutions and State and local government can obtain Federal property at no cost or at a substantial discount if they use the property for various types of public uses. Such transfers divert Federal taxpayer funds from deficit reduction and services provided to citizens. The Administration supports streamlining the disposal process by eliminating all of the public benefit conveyances and taking all excess Federal real property directly to sale, thereby maximizing the return to taxpayers. The Administration is supporting two disposal-related efforts as part of the 2021 Budget.

- The Administration supports expanding existing an authority to allow GSA to assist other Federal Agencies in preparing unneeded properties for disposition. The Administration will transmit a legislative proposal to expand the allowable uses of GSA's Disposal Fund to support Executive Agencies in the disposal of unneeded Federal real property. This expansion would further streamline and accelerate the disposal process, allowing GSA to be reimbursed from the sale proceeds rather than requiring agencies to dedicate appropriated budgetary resources up front.
- The Administration also supports the efforts of the newly-established Public Buildings Reform Board (Board), whose members were sworn-in in May 2019. The Board, established under the Federal Assets Sales and Transfer Act of 2016 (P.L. 114–287), is working to identify, and propose to OMB, Federal assets suitable for disposition and consolidation. The law allows for three rounds of disposition actions. The first round of dispositions that identified high-value assets was approved by OMB recently and will seed activities for future disposal actions. The Board has identified several unique opportunities to dispose of Federal assets for future private use, where the proceeds from the disposition will assist the Government in disposing of and consolidating additional real property for which funds were previously unavailable or insufficient. For example, the disposal of GSA's Auburn Federal Complex has been delayed because of a lack of funding to relocate the current Federal tenants. Disposition of other properties under this initiative, together with an appropriation of the proceeds, would allow for the execution of likely several future consolidation and disposition actions such as this example.

Conclusion

The Administration continues to pursue opportunities to optimize the Federal portfolio of real property by disposing of unneeded assets, investing in mission-critical assets, bringing the delivery of the Federal mission closer to the populations serviced, and proposing necessary legislative action to support the real property agenda. The efforts of the Administration are positioning agencies to make informed decisions on their portfolios, executing missions, and serving taxpayers.

For more details on the agency real property inventory see the following website: https://www.gsa.gov/cdnstatic/FY_2016_Open_Data_Set.xlsx.

