March 6, 2020

M-20-10

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Margaret Weichert
Deputy Director for Management

SUBJECT: Issuance of an Addendum to the National Strategy for the Efficient Use of Real Property

This Memorandum provides heads of executive departments and agencies with the Addendum to the National Strategy for the Efficient Use of Real Property (Strategy). The Strategy was issued in 2015 as a first step to develop a strategic framework for long-term management of the government’s real property portfolio. The Addendum further builds on and matures the existing strategic framework and includes new requirements to support cost effective and efficient management of the government-wide real property portfolio to deliver results for the taxpayer.

This Addendum will provide significant benefits in improving management of the government’s portfolio now. OMB recognizes that further work is needed to develop a comprehensive and final Strategy document, and it has initiated work to develop it. OMB will, in coordination with the Federal Real Property Council and the General Services Administration, perform outreach to private sector entities and other interested parties to ensure that the best practices and strategies employed by the private sector are included in the final Strategy.
Addendum to the National Strategy for Real Property

Optimizing the Portfolio to Support the Mission and Manage Costs
Addendum to the National Strategy

In accordance with the President’s Management Agenda’s (PMA) focus on mission, service, and stewardship, this Addendum to the Real Property National Strategy (Strategy) is being issued to meet the following three objectives:

1) Extend the duration of the existing Strategy and to more closely align it to the PMA;
2) Outline specific actions that can be implemented under the direction of the Federal Real Property Council (FRPC) to improve real property management and governance in the short term, and;
3) Outline the scope and content for a future publication of a more comprehensive National Strategy for Federal real property that not only takes into account the objectives outlined in this Addendum, but considers leading real property management practices from the private sector, state and local governments, and other national governments.

This Addendum extends the duration of the current Strategy until it can be replaced by a comprehensive new National Strategy. It provides a management framework, including specific actions, the Federal Real Property Council (FRPC) will lead now because they support agencies’ ongoing effort to improve the mission effectiveness and cost efficiency of agency real property portfolios. While the framework and associated actions will provide immediate benefit, this Addendum acknowledges that the current Strategy – even with the additions provided in this document – will require expansion of scope and content to enable the Federal government to fully optimize its real property portfolio.

The current Strategy is limited because it focuses solely on reducing office and warehouse space; it does not address optimizing the Federal portfolio as a whole, across and within agencies, for mission effectiveness and cost efficiency. For example, it does not address the persistent data quality issues that originate from a lack of government-wide data standards and business processes, does not create a role for capital planning to prioritize limited investment funds, and also does not provide a vision to link budget formulation to execution and program outcomes to ensure funds are expended on the highest priority actions, among other improvement areas. Many of these issues are addressed by this Addendum but other issues require additional research and analysis. Accordingly, this Addendum is intended to serve as an interim step toward the issuance of a comprehensive real property National Strategy.

Development of the comprehensive Strategy will require research on policies and practices used by other organizations, which may include the private sector, State and local governments, as well as governments in the Organization of Economic Cooperation and Development. The strategy will aim to learn from practices used to manage new construction, maintenance, repair, renovation and disposal of real property, including mechanisms to fund those activities. Additionally, the Strategy will require an assessment of how the federal government accounts for real property assets on the balance sheet and makes other disclosures in the consolidated financial statements of the U.S. government (including valuation, capitalization/recapitalization, depreciation, etc.) and compare those practices against other relevant accounting standards employed in the U.S. and by other national governments. It will also include an investigation into leading practices and options for the federal government to manage and leverage its real
property and land rights to maximize economic value to the American people and fuel economic development.

This work will take some time to complete and distill into national policy. For that reason, the Addendum provides interim actions that the FRPC can implement in the short term to improve portfolio management.

**Introduction**

Federal managers face multiple challenges precluding management excellence of the real property portfolio which includes both controllable and uncontrollable factors. For example, it can be challenging for managers to secure appropriations necessary to adequately fund the full real property lifecycle, particularly when they lack a clearly articulated requirement and appropriate data to support the request. Agencies frequently focus on initial acquisition costs to the detriment of other phases of the real property lifecycle such as planning, maintenance, repair, modernization, and disposal. The government’s significant backlog of deferred maintenance and retention of unneeded property is partially due to lack of focus on later phases of the real property lifecycle. Additionally, Federal managers may require further legislative reforms to efficiently dispose of unneeded real property.

Notwithstanding the long-standing challenges associated with funding and disposal processes, other major challenges can be mitigated by improving capital planning, standardizing business processes and data, modernizing Information Technology (IT) to include expansion of shared services, and continued emphasis on disposal of excess property within existing authorities. Additional budget authorities and improved ability to dispose of excess property would further enable strategic allocation of resources to address critical mission capability gaps. The purpose of this Strategy is to provide a framework to address controllable challenges, improve agencies’ capability to manage their real property portfolio, and document other budget and legislative reform options.

**Strategic Vision for Federal Real Property**

The Federal government needs a long-term vision and goal statement to help guide agencies towards management excellence of the Federal real property portfolio. They are:

**Vision Statement**

Position the Federal government to optimize its real property portfolio by actively addressing budget and legislative barriers to good management practices, implementing business process and data standards, and building centralized and shared service solutions, consistent with the PMA.

**Goal Statement**

Optimize the Federal real property portfolio to support agency mission needs, demonstrate stewardship of taxpayer resources, manage costs through implementation of robust capital and
strategic planning, develop and use detailed budget and expenditure data, and prompt legislative reform.

To “optimize” the real property portfolio is to ensure the Federal government has the right type of property, in the right amount, at the right location, at the right cost, in the right condition, to support the diverse mission requirements of the agencies. There is not a “one size fits all” optimal configuration of real property. Accordingly, agencies will need to develop optimization criteria that best suit their unique mission requirements and that can also be used to measure progress toward optimization.

**Challenges to Achieving the Government’s Real Property Vision and Goals**

There are four high level challenges to optimizing the Federal government’s real property portfolio.

The first challenge is the significant constraints on available capital. This challenge is largely outside the control of Federal agencies because of their reliance on annual appropriations to fund real property portfolio costs. Even with the best capital planning, agency leadership cannot secure capital unless approved by Congress through the budget process. Real property appropriations, when competing with other mission requirements, have historically not been sufficient to perform necessary maintenance, repair, reinvestment, and disposal across the portfolio. This is evidenced by the backlog of repair needs (estimated in the Federal Real Property Profile database to be $200 billion for buildings and structures), and the government’s reliance on commercial leases in cases where it would be more prudent to invest in government-owned property.

Insufficient operating capital directly contributes to the second high level challenge - management of the government’s legacy portfolio. The current portfolio is aged, with an average building age of 47 years, and it is too large and not configured to most efficiently support mission requirements. Most of the government’s buildings and structures were constructed decades ago and they require modernization to support agency mission requirements. Many real property assets cannot easily be configured to meet modern work space requirements without a large capital infusion, are not located where they can optimize mission delivery, or are public facing assets that are more heavily used now than originally intended due to population growth and demographic shifts. Funding has not been prioritized sufficiently to optimize the existing Federal real property portfolio. There is too little capital to transform the legacy portfolio by disposing of unneeded property, building assets in more appropriate locations, consolidating space, modernizing old property that is still needed, and providing adequate maintenance and repair funding to bring the existing property stock up to satisfactory condition. As a result, the government must distribute its’ limited capital over too many assets, precluding implementation of a concerted transformation strategy to optimize the portfolio.

The third major challenge is management fragmentation of the real property portfolio into isolated, agency-based communities of practice. Like many Federal mission support functions, real property is managed in a decentralized or agency specific manner without the benefit of a whole-of-government perspective. This results in inconsistency, fragmentation, and
inefficiencies which inhibits appropriate inter-agency consolidation. Additionally, it has led to a lack of standard business practices, capabilities, data definitions, and shared IT solutions. Due to differences in historic practice and statutory authorities and requirements, agency-unique management practices have emerged over decades that make it difficult for agencies to agree on common practices to achieve economies of scale across the government. The lack of a common “language” across the portfolio limits the capacity of the Federal government to identify redundant assets and capabilities, which leads to greater cost and inefficiencies.

The fourth challenge is lack of integration among real property budget formulation, execution, and accounting for costs and performance within agencies. Current systems do not support the collection and reporting of information needed for Federal managers to effectively track how funding is used for specific real property elements such as maintenance, repair, renovation, operations, and disposal. Given this lack of transparency, senior agency decision makers cannot effectively determine their funding requirements or whether their desired cost and performance objectives are being achieved. Often, agency leadership does not know how much is actually being spent on real property because of the way cost data is collected and reported. New tools to link strategic planning, budget formulation, and budget execution to accounting and performance results are necessary to improve funding transparency and better support decision making.

The four major challenges require a government-wide mitigation strategies that include implementing capital planning, standardizing business processes and data, and proposing legislative changes. Ultimately, alongside these strategies, addressing the legacy portfolio will require an infusion of capital to optimize the portfolio and meet mission requirements.

There are five historic issues hindering the Federal government from making significant progress towards a more optimizing the real property portfolio.

**Issue 1: Leadership Engagement**

Leadership engagement that sets a “tone at the top” is essential to achieve government-wide transformation goals. However, sufficient leadership attention has not been provided to manage real property as a strategic asset because real property is often not appreciated as an important component of mission success. The capital acquisition and disposal constraints placed on senior Federal managers makes it daunting for them to prioritize significant improvements in the real property portfolio as it may be seen as a Sisyphean task. Consequently, the needs of the real property portfolio do not receive sustained senior management attention during agency planning and budget formulation processes. For example, real property is frequently not included in agency strategic plans even though it houses their workforce, information technology, data, personal property, and inventories – all of which are usually identified as strategic assets -- that enable mission delivery. Additionally, due to the lack of integration and transparency of budget, cost, and performance information, senior managers may miss efficiency opportunities.

**Issue 2: Multiyear Capital Planning**

The capital programming guide in OMB Circular A-11 requires that agencies “must have a capital planning process that addresses project prioritization between new assets and
maintenance of existing assets,” yet many agencies have either not implemented a rigorous multiyear capital planning process to allocate funding between the two, or they have not implemented capital planning at all. As indicated previously, because the Federal government historically has not managed real property from a whole-of-government perspective, there has not been a common approach to capital planning. Capital planning within agencies has varied significantly and cannot be easily consolidated into an integrated government-wide methodology. Additionally, because many agencies do not link the capital planning to their strategic objectives, it makes it more difficult for agencies to make a strong business case for why additional capital is needed. To improve capital planning, on November 6, 2019, OMB issued M-20-3, “Implementation of Agency-wide Real Property Capital Planning,” which states that a core principle of this Administration’s real property strategy is to ensure that agencies consistently implement sound capital planning practices to optimize the portfolio to cost efficiently achieve the mission. This will ensure agencies identify, plan for, and allocate resources in the annual budget formulation process in order to eliminate gaps. Requirements set forth in this memo provide detailed guidance for agencies to implement the Capital Programming Guide in OMB Circular A-11.

Issue 3: Business Process and Data Standards and Shared IT Solutions

The government’s capability to manage its real property portfolio suffers from a lack of standard business processes, data standards, and shared IT solutions. The objective of PMA Cross Agency Priority (CAP) Goal#5, “Sharing Quality Services” is to establish a strategic government-wide framework to improve the effectiveness and cost efficiency of administrative services, such as real property management. The PMA framework supports development of common business processes, data standards, and shared IT solutions within each administrative service area across the government to develop economies of scale that decrease costs and improve management capability. The Federal Integrated Business Framework can serve as a basis to develop standard business processes, data standards and IT solutions to help align the real property service area across agencies to gain economies of scale and enhance management capability. As those standards are implemented, Agencies can start looking for opportunities to consolidate systems and move to shared services as the market develops for these tools.

Issue 4: Alignment of Agency Internal Annual Budget Processes

In many cases, the agencies’ annual budget formulation process focuses on the cost of acquisition without adequate consideration given to out-year costs to operate, maintain, repair, and dispose the property. By focusing heavily on the initial cost of acquisition, agencies do not always fund costs associated with maintaining facilities in mission ready condition and modernizing existing facilities. This has contributed to a growing backlog of deferred maintenance and repair and has not made funding available to modernize existing facilities. Additional integration of planning, formulation, execution, accounting and reporting phases of the budget process is needed to optimize the Federal real property portfolio. Agencies also need to significantly improve internal coordination among lines of business (CFO, CIO, Real Property, etc.) to ensure that all phases of the real property life cycle are addressed in the budget formulation process.
Issue 5: Federal Disposal Process

The current process under Title 40 of the U.S. Code for disposing of unneeded Federal real property is burdensome and it does not provide incentives for Federal managers to dispose of property or to maximize the disposal value to taxpayers. Title 40 requires agencies to screen property disposals for at least 12 discrete public benefit conveyance requirements prior to sale. The average disposal timeframe is more than 12 months, during which time the government continues to carry the operating costs. Additionally, certain nonprofit institutions and State and local government can obtain Federal real property at no cost or a substantial discount if they use the property for various types of public uses. These processes dissuade Federal managers from disposing of unneeded property. The Federal Assets Sale and Transfer Act (FASTA) process can accelerate disposals through the sale of high value properties to speed disposal for a subset of unneeded properties, but FASTA does not provide permanent relief from existing requirements for the rest of the portfolio. As lessons are learned from implementing the FASTA process, OMB and the FRPC will consider suggesting legislative proposals to reform the Federal disposal process and/or update the National Strategy.

The Interim National Strategy Framework

This Addendum provides an interim strategic government-wide framework to improve the effectiveness and efficiency of government-wide real property management. This framework expands upon the executive branch’s previous strategy document - the National Strategy for the Efficient Use of Real Property 2015-2020, which focused exclusively on the principles of “freeze,” “measure,” and “reduce” to eliminate office and warehouse space - by comprehensively cataloguing relevant challenges and establishing strategies to address them. An expanded framework will help guide agencies as they work toward optimizing their portfolios for cost efficiency and mission effectiveness. The previous National Strategy, issued in 2015, successfully reduced office and warehouse space, but its scope was too narrow to identify and address the persistent portfolio-wide challenges addressed here.

The three strategies below, if fully implemented, will enable the Federal government managers to:

1) Perform a comprehensive assessment of current and future mission capability gaps in the portfolio and the capital required to eliminate them;

2) Establish a common, government-wide business environment where agencies adopt common business processes and standards and share IT and other tools and capabilities across government to promote better management practices and eliminate redundancy, and prevent needless expenditure of resources; and,

3) Identify legislative reforms that provide agency leadership with the authority needed to prioritize mission support and cost efficiency.

Strategy 1 – Capital Planning: The implementation of a consistent and repeatable capital planning process government-wide will enable agencies to optimize their portfolio and support
the strategic planning processes. OMB Memorandum M-20-3 requires agencies to develop a risk-based five year capital planning process to identify current and future mission requirement gaps. Gap data will be used to develop capital plans to optimize each agency’s real property portfolio which will likely span several five year plans due to funding constraints. The capital plans will link to each landholding agency’s strategic plan. Existing statutory requirements such as FASTA and the Federal Property Management Reform Act (FRPMRA) will be utilized to accelerate the elimination of current and future gaps identified in the capital plan. Actions one, two, and three below will be executed to support strategy 1.

**Action 1: Implement a common government-wide multi-year capital planning process, as described in OMB Memorandum M-20-3**

The memorandum’s objective is to implement a government-wide capital planning requirement and to ensure that each agency follows a consistent, repeatable methodology for allocating financial resources that prioritize the efficient use of taxpayer dollars and government assets. Applying consistent capital planning processes across the Federal landscape will identify and eliminate redundant capabilities and excess assets from the Government’s portfolio and enable long term, cost effective investments that support agencies’ missions. The policy’s desired outcome is an optimized portfolio where the agencies have the right type of property, in the right amount, at the right location, in the right condition, at the right cost to support their mission. At the asset level, optimization factors to balance the portfolio include: size, cost effectiveness for asset location, mission capability, whether asset location supports mission attainment, whether the asset’s capabilities could be better served by another asset, utilization, asset condition, and resilience and security, among others. OMB’s Capital Programming Guide in OMB Circular A-11 will serve as the reference document for implementation of this requirement.

**Action 2: Include Real Property Management in Landholding Agencies’ Strategic Plans**

Real property is an asset class that supports critical mission delivery functions – housing staff, IT systems and data, providing space for service to the public, and supporting unique capabilities such as medical care and customs inspection. As such, pursuant to OMB M-20-03, it must be recognized as a strategic asset in the landholding agencies’ strategic plans. Integrating real property management objectives, and addressing any gaps in the portfolio’s ability to fully support the agencies’ strategic plans, will increase focus on and improve management of an asset class that has high fixed cost, limited management visibility, and limited potential for immediate transformation due to capital constraints.

**Action 3: Establish a Biennial Real Property Portfolio Risk Report Highlighting Capital Gaps**

As an entity, the Federal government has not succeeded at assessing and communicating government-wide real property portfolio gaps, resource needs, and risks to taxpayers and Congress. The implementation of OMB M-20-3 will provide the government with the data to better assess gaps, risks, and resource needs to enhance program transparency, and provide Congress with information to assist with its oversight, budget, and authorizing functions. The report will also help develop a partnership between the two branches of government to collaboratively address the persistent financial and mission risks attendant to the government’s
real property portfolio. The FRPC, as the governing body, will help define and propose government-wide strategies to focus the report on the portfolio’s most pressing issues and recommended solutions.

**Strategy 2 – Lifecycle Execution:** Establish a common set of business process and data standards across the property management life cycle that can be used to build shared IT solutions to improve data quality, enhance transparency, and reduce costs, consistent with the PMA. Establishing standards will enable the implementation of tools and processes to help identify redundant assets, highlight required capabilities, and help centralize real property management within agencies to gain cost efficiencies. It will enable executive leadership to identify opportunities to align business lines and consolidate real property among agencies.

**Action 4: Improve Management Decision-Making Capability through Budget Formulation and Execution Transparency**

As noted above, improving the transparency of agency level budget formulation and execution will allow for improved decision making by linking budget inputs to outputs and outcomes, and by integrating all phases of the budget process.

**Action 5: Establish Business Process and Data Standards and Shared IT Solutions**

This action is governed by OMB Memorandum M-19-16 *Centralized Mission Support Capabilities for the Federal Government*. The primary objectives for this action are to implement the Federal Integrated Business Framework to define government-wide program functions, activities, and capabilities required to implement the real property program consistently, to develop standard data definitions, business processes, and information systems capabilities, and to identify an agency to manage all standards and ensure their integrity over time. The desired result is a common set of business process and data standards that enables interoperability across agencies that may lead to further opportunities to combine capabilities, eliminate redundant systems, and enable government-wide portfolio analysis to support cost efficient operations. Standard business processes and data elements are essential building blocks for leveraging technology to build shared solutions and to take advantage of advanced analytic tools.

**Action 6: Establish and Publish Accountable Annual Performance Metrics for all Agencies**

A collection of performance metrics is currently published on the performance.gov website using government-wide data. Under this action, agency specific annual performance metrics will be published on performance.gov to track the agencies’ improvement on key measures such as space utilization, portfolio condition, lease costs, and other metrics that the FRPC will specify. The objective is to enhance the program’s transparency for all stakeholders so they can assess program improvement, provide agency management with a standard set of metrics to inform their decisions, and modify the program culture to be more collaborative and open to evaluation.

**Strategy 3 – Root Cause Analysis:** Identify the root cause(s) of existing real property management challenges and create a proposed legislative reform plan to help mitigate them. This
proposal will complement existing proposals already laid out in the President’s infrastructure and reform plans and previous budgets. The primary objective is to work with Congress to eliminate legislative barriers that encourage the retention of unneeded properties, allow the repair backlog to continue to grow, and that limit the government’s ability to fully fund large, transformative real property actions. Actions seven and eight below will be executed to support Strategy 3.

Action 7: Implement the Administration’s Proposed Federal Capital Revolving Fund

Funding large real property projects is difficult in a budget era of tight spending limits, primarily because the full up-front appropriation scores against the discretionary spending caps as allocated across various congressional committees. This is problematic for large-dollar, one-time expenses because they must compete with agency operating and program expenses, usually unsuccessfully. To mitigate this challenge, a capital financing fund needs to be established and structured to function like a capital budget but operate within the traditional rules used for the Federal budget for civilian real property. Agencies would borrow money from the fund and pay it back with their discretionary appropriations over a 15 year period. As a result, large real property projects would compete better with annual operating and programmatic expenses for limited funding, and the government would be able to execute large projects to address mission requirements, modernize critical facilities and reduce its reliance on leasing. For more details, see the President’s Legislative Outline for Rebuilding Infrastructure in America where this proposal is discussed in more detail.

Action 8: Propose Legislative Changes to Mitigate Challenges

The intractable issues identified in this document— the disposal process, the limits on capital (particularly for very large projects), and addressing the government’s legacy portfolio— require legislative reform to mitigate. Additional reforms, once identified, can significantly improve the program’s quotidian operations and reduce the government’s cost and administrative burden. The FRPC will continue to work to identify legislative solutions that increase efficiency, cost effectiveness, and support portfolio optimization.

Resourcing the Vision and Managing Risks

At present, it is difficult to develop an accurate government-wide estimate for the total cost to implement the actions provided here, primarily because capital planning has not been implemented across the government. Capital planning must be implemented by the agencies to estimate resource needs, but this will not occur until fiscal year 2022. Even after capital planning is implemented the total cost will have a degree of uncertainty. This uncertainty is due to priority actions shifting over time because of evolving mission requirements and enactment of new law, uncertainty attendant to forecasting the cost of future actions, and the pace at which the actions specified in the Strategy are completed and implemented. Rolling up the cost estimates in the landholding capital plans will therefore not provide a definitive total cost estimate due to these considerations. The biennial real property portfolio risk report that highlights capital gaps (action 3 in this Strategy) will provide the total cost estimate when it is completed.
The greatest risk to successful implementation of this Addendum is that the specified actions are not implemented due to a lack of resources, insufficient support from the agencies, or resistance to proposed changes related to creating new business processes and data standards. The primary obstacle to creating an optimized Federal real property portfolio is lack of access to the capital needed to address the legacy portfolio and the ongoing deterioration of the portfolio’s condition. Implementing the actions specified here will reduce the risk of insufficient capital, but will not fully mitigate it or overcome it.

**Implementation Strategy**

The FRPC will develop a schedule that provides the timeframe and approach for implementing each of the specified actions within 120 days of this document’s promulgation.