

**STATEMENT OF
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**BEFORE THE
COMMITTEE ON TRANSPORTATION AND
INFRASTRUCTURE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC
BUILDINGS, AND EMERGENCY MANAGEMENT
U.S. HOUSE OF REPRESENTATIVES**

***“SITTING ON OUR ASSETS: CUTTING SPENDING AND
PRIVATE REDEVELOPMENT OF UNDERPERFORMING
BUILDINGS”***

FEBRUARY 10, 2011



Good afternoon, Chairman Denham, Ranking Member Norton, and members of this Subcommittee. My name is Robert A. Peck, and I am the Commissioner of the U.S. General Services Administration's (GSA) Public Buildings Service (PBS). I am honored to join you here today at the Old Post Office, a fitting example of a redevelopment opportunity that this Administration is considering how best to transform a historic property that, in its current form, is configured inefficiently for government office use, and an annex pavilion that was a commercial failure, into an asset put to its best use.

This project is only one example of GSA's ability to effectively utilize our owned and leased building portfolio. GSA is a leader in government and outpaces the private sector in the asset management of our buildings and leases. We are also building on our successes with aggressive efforts to improve utilization, deliver new and innovative workplace strategies, and use new authorities to further partner with the private sector to benefit taxpayers.

GSA: the Federal Government's Asset Manager –

Since 2002, GSA has undertaken a major portfolio restructuring. We have disposed of 204 vacant or underutilized properties, totaling more than 9.5 million square feet, from the inventory. This represents a 5.3 percent reduction in GSA's owned portfolio and the elimination of almost \$484 million in anticipated repair needs.

In June 2010, the President issued a memorandum, "Disposing of Unneeded Federal Real Estate," that ordered all Federal agencies to step up this effort. As part of this effort, GSA's Office of Real Property Utilization and Disposal has tripled the number of governmentwide assets classified as excess for disposal consideration and has set aggressive targets for disposals, on behalf of other Federal agencies, in FY11 and FY12 in support of the President's memorandum. Moving forward, GSA will continue to aggressively identify and target underutilized assets for disposal within the existing framework of authorities, from reviewing the potential for public benefit conveyances to environmental remediation under CERCLA as well as NEPA and Section 106 compliance.

When GSA gained the authority to retain sales proceeds in 2005, GSA's disposal actions returned almost \$227 million in receipts to PBS's Federal Buildings Fund.¹ These funds have been reinvested into our portfolio to help maintain well functioning and welcoming buildings.

The Thaddeus J. Dulski Federal Office Building in Buffalo, NY represents a case study in an effective disposition. In 2005, PBS excessed this building, which had a high vacancy rate and a need for costly renovations. This underperforming asset was sold to a private developer in 2006 and produced \$6 million for the Federal Buildings Fund. The building was renovated as a mixed-use hotel, commercial and residential property that has helped keep jobs in downtown Buffalo, while adding to the tax base for the city.

¹ This figure includes revenue generated through use of all GSA disposal authorities. GSA has generated more than \$150 million for the Federal Buildings Fund using Section 412 authority alone.

GSA has led Federal efforts to utilize government-owned space effectively. At the end of FY10, GSA's national vacancy rate for all owned and leased assets was 2.4 percent, significantly less than the national private sector rate of 16.7 percent. Additionally, less than 3 percent of GSA's portfolio has been classified as an under- or non-utilized asset, according to the 2009 Federal Real Property Profile.

When we find underutilized space in areas where there is a continuing Federal need, GSA works aggressively to renovate and reuse the asset to achieve greater utilization. One example of that is GSA's renovation of 50 United Nations Plaza in San Francisco. That renovation, funded by the American Recovery and Reinvestment Act (Recovery Act), will restore a historic property that is currently vacant. When the project is complete, it will house GSA's regional offices. That, in turn, will enable us to move the FBI and U.S. Courts out of currently leased space into federally-owned space in the Burton Federal Building, which will help us realize a long-run cost savings in our space portfolio.

Since our restructuring initiative began, we have also delivered a number of critical consolidation projects and completed more than 140 major modernization projects. These facilities provide more efficient workspace for tenant agencies.

The FDA Headquarters campus at the White Oak Federal Research Center in Maryland, which was previously a military base, is another example of an important Federal consolidation and redevelopment project. GSA is moving FDA from more than 40 dispersed and outmoded facilities into a new federal campus that will enhance FDA's ability to carry out its mission and increase the revenue stream into the Federal Buildings Fund. When complete, the campus will comprise almost 4 million square feet of offices and laboratories, housing more than 8,000 FDA employees. The presence of FDA on the White Oak campus is driving private sector economic development to create a larger science-based research and development sector in suburban Maryland.

The development of the DHS Headquarters campus at St. Elizabeths in Southeast Washington, D.C., is another critical consolidation and redevelopment project GSA is leading for the Federal government. This project, initiated through Recovery Act funds, enabled us to begin construction of the 4.5 million square foot campus that will consolidate DHS workers from more than 50 locations in the D.C. metropolitan area into one modern and efficient campus thereby saving taxpayers an estimated \$600 million² compared to the cost of leasing.

The Recovery Act allowed GSA the opportunity to invest in our inventory and begin many needed renovations. Another critical Recovery Act project, the modernization of GSA's headquarters at 1800 F Street, provides an example of taking an older asset in our portfolio and converting it into a modern and efficient workspace. With only a

² \$600 million in savings represents the total amount in present value terms compared to the cost of leasing the same amount of space over 30 years

modest amount of expansion space, we intend to turn a building that previously served 2,000 personnel into a building that will serve 6,000.

Legislative Authorities for Disposal, Reinvestment, and Redevelopment –

Congress has played a critical role in our ability to more effectively utilize our space. GSA has successfully used our out-leasing authorities to improve the use of our properties. Section 111 of the National Historic Preservation Act allows us to out-lease underutilized historic Federal buildings, in whole or in part, to non-Federal tenants. Section 412, which Congress granted in the FY 2005 Consolidated Appropriations Act,³ allows GSA to retain net proceeds from dispositions of its real and related personal property through sale, lease, exchange, or otherwise, including leaseback arrangements.

The sale of more than 50 acres of land at the Denver Federal Center in 2007 highlights GSA's use of this Section 412 authority to return millions of dollars for the Federal Buildings Fund. This negotiated sale also illustrates GSA's effective partnering with local communities to reposition surplus real property while encouraging development. GSA conveyed this property to the City of Lakewood as a site for relocation of the St. Anthony's Central Hospital. GSA sold another 15 acres in 2007 to the City to help facilitate a public, intermodal transportation terminal for bus and light rail and related transit-oriented development.

The John W. McCormack Post Office and Courthouse in Boston, Massachusetts showcases an innovative use of our authorities to ensure an historic building remained an active but modernized asset in GSA's inventory. In 1998, the Federal courts relocated to a new courthouse from the McCormack Courthouse, leaving a substantial vacancy. Given the building's age, the McCormack Courthouse faced significant reinvestment needs. Using the Section 111 authority, GSA temporarily leased the building to the Massachusetts State Trial Courts, a tenant with common courthouse functions. Doing so obviated the need for considerable build-out and maintained the viability of an historic asset. A decade later, following the end of the lease and the relocation of the State courts, GSA renovated the building for renewed Federal use, using a number of innovative sustainable building technologies and practices. To support the reinvestment cost, GSA worked with Federal agencies to relocate them from leased spaced into the newly renovated building, transforming the building into a high performing, financially sustainable asset.

Congress also has on occasion granted GSA special authority to adopt innovative, flexible arrangements for working with the private sector. For instance, GSA received authority to develop the Southeast Federal Center (SEFC) site in Washington, DC, through the *Southeast Federal Center Public-Private Development Act of 2000*⁴. By leveraging the private sector's creativity, experience, and resources, GSA achieved its goal of transforming the SEFC site into an asset where office workers, residents and

³ P.L. 108-447 (2004).

⁴ P.L. 106-407 (2000).

visitors can live and work. GSA helped transform this waterfront property into a unique mixture of office and other commercial space, residential homes, and public amenities, while retaining proceeds of more than \$43 million.

GSA used its authority under Section 111 to lease the historic Tariff Building in Washington, DC, for use as a first-class hotel and restaurant, eliminating operating and maintenance costs while ensuring long-term stewardship and public access to this important historic building. The building, which served as the first headquarters of the Post Office Department, sat vacant for 15 years following the departure of the Tariff Commission in 1987, while the surrounding Penn Quarter neighborhood was largely dormant. GSA worked with private sector developers to transform the 161-year old building and help revitalize the Penn Quarter neighborhood, leasing the property to a private hotel company that reopened the Tariff Building in 2002 as the Hotel Monaco. The lease provided for privately funded restoration of ornamental spaces, replacement of all building systems, modification to bring the building up to current code requirements, and a positive net rental revenue over the 60-year lease.

Finally, we get to the project that brings us here today, the redevelopment of the Old Post Office. The Old Post Office presents a unique history. Federal funding for renovation was combined with a private sector out-lease in 1982 that provided for a ground floor and below-grade retail pavilion with \$28 million in private funds for construction and leasehold improvements. The building re-opened in 1983 with a mix of Federal tenants and retail uses. This lease was amended in 1989 to provide for construction of the Annex, which was constructed with \$1.75 million in Federal funds and \$5.5 million from the private sector. Though intended for retail use, it was never fully tenanted and its potential was never fully realized. The Pavilion and the Annex were commercial failures, resulting in a default on the leasehold mortgage in 1993. After Collin Equities, an affiliate of Wells Fargo, bought the leasehold interest for \$8.5 million at foreclosure, GSA paid Collin Equities \$7.1 million to acquire the leasehold interest in 2001.

With direction provided by Congress in the *Old Post Office Building Redevelopment Act of 2008*,⁵ and authority provided in Section 111, GSA is now able to leverage private sector real estate investment to reposition the Old Post Office as a viable asset, while preserving its historic integrity; putting the asset to its highest and best use, thereby providing a financial return to the Federal government; allowing for public access; and contributing to the vitality of Pennsylvania Avenue, the Federal Triangle, and the District of Columbia. We are examining the best approaches to redevelopment of the Old Post Office. We're working on what the right kind of Request for Proposals (RFP) would include, for example. It will be important to ensure that any proposed deal is in the best interest of the Federal taxpayer and that it limits the government's exposure to risk.

As we have pursued redevelopment, GSA has continued to maximize our returns and minimize our annual losses by fully utilizing the available office space and using our

⁵ H.R. 5001.

authority under the Public Buildings Cooperative Use Act to lease the atrium's pavilion to house a food court and retailers.

Pursuing Innovative Solutions to Optimize Space and Reduce Costs –

Beyond our asset management strategies and existing authorities, GSA is leading the way to use space more effectively by breaking out of traditional office space configurations and providing tools and solutions that support a truly mobile workforce. During our headquarters building renovation, we have started using GSA's "swing space" as a laboratory for new technologies and solutions for alternative workplace arrangements, such as hotelling office space. We have also been studying best practices from other organizations throughout the United States and the world to learn how they effectively use space. Over the long-term, such practices hold great promise for enabling us to carry out government functions with much less office space per Federal employee.

GSA is partnering with Federal agencies to develop workspace solutions that create a flexible and mobile work environment. GSA is beginning to help agencies manage space utilization by offering guidance to reduce the amount of space required over time and increase Federal employee productivity. We are reinventing ourselves by changing from an organization that processes orders for space to creating agency partnerships that develop innovative options that enable agencies to use space more efficiently at a lower cost through the use of technology, sustainability, flexible office utilization, and a more mobile work environment.

In cooperation with the Office of Personnel Management, GSA is providing Federal managers with the tools necessary to build a mobile workforce. GSA is committed to leading the government and private industry in telework initiatives and is striving for 60 percent of all GSA employees to telework at least two days per pay period. This practice has the potential to create substantial savings both in real estate and operating costs.

Working with other Federal Agencies –

GSA supports the Administration's goals of disposing of unneeded real property and reducing Federal spending by providing a variety of asset management and disposal services to other landholding Federal agencies. GSA assists agencies in developing asset management plans and strategies, in accordance with the President's June 2010 memorandum and Executive Order 13327, "Federal Real Property Asset Management," to improve asset utilization. GSA provides the resources, tools, and experience necessary to drive effective real estate decisions throughout the government.

Conclusion –

GSA is a leader in asset management, aggressively moving unneeded properties, effectively utilizing space, and pursuing new strategies that meet our obligation to

taxpayers to house government's functions as efficiently and economically as reasonably possible. We are also taking advantage of our position in the Federal government to help drive better decision-making across partner agencies that will result in a sustainable and efficient government.

Redevelopment of the Old Post Office is a great example of how the Federal government can, in cooperation with the private sector, turn a commercial failure and a less-than-optimal office building into a facility that will more efficiently serve its community and produce a return on the investment for the Federal government.

I appreciate the opportunity to come here today and I welcome your questions.