



U.S. General Services Administration

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Commissioner
Public Buildings Service

Committee on Transportation and Infrastructure
Subcommittee on Economic Development, Public Buildings, and
Emergency Management
"One Year Later: Effectively Utilizing Assets"
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Good morning Chairman Denham, Ranking Member Norton, and members of this Subcommittee. My name is Robert Peck, and I am the Commissioner of the U.S. General Services Administration's (GSA) Public Buildings Service (PBS). Thank you for the opportunity to join you here again today at the Old Post Office to discuss the progress GSA has made in pursuing the redevelopment of this historic property.

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 asset management of buildings and leases. We are building on our successes with aggressive efforts to deliver new and innovative workplace strategies that will improve utilization even more.

GSA: the Federal Government's Asset Manager –

Over the last decade, GSA has successfully implemented a major portfolio restructuring aimed at "right-sizing" its real estate portfolio. Since GSA gained the authority to retain sales proceeds in 2005, GSA's disposal actions have returned almost \$244 million in receipts to PBS's Federal Buildings Fund (FBF).¹ In fiscal years 2010 and 2011 alone, we disposed of a total of 88 vacant or underutilized properties, totaling more than 4 million square feet, from the inventory. These disposals allowed GSA to avoid \$73 million in anticipated repair needs and operation and maintenance costs.

GSA continues to make progress on the targets put in place following the June 2010, Presidential Memorandum, "Disposing of Unneeded Federal Real Estate." Federal agencies are on target to meet this \$3 billion goal of cost savings by the end of FY 2012. To date, GSA has saved more than \$300 million towards our goal of \$450 million. As part of this effort, GSA's Office of Real Property Utilization and Disposal is assisting other agencies as well in meeting their aggressive targets through disposals. Moving forward, GSA will continue to aggressively identify and target underutilized assets for disposal.

One example of a recent disposition is the sale of a surplus federal building in Brooklyn, NY. GSA negotiated a sale of the property with the New York City Economic Development Corporation (NYEDC). NYEDC and its development partner purchased the property for \$10 million with a goal of ensuring the site is redeveloped for the primary purpose of retaining and attracting industrial jobs. They are currently renovating the building for use as a state of the art industrial center. The once-vacant federal building will soon be a hub of activity that is projected to create 400 short term construction jobs and 1,300 permanent jobs. This project is expected to be a catalyst

¹ This figure includes revenue generated through use of all GSA disposal authorities.

for the industrial redevelopment of Sunset Park and complement the other industrial complexes in the area.

The disposition of property on the Fort Worth, TX Federal Center is another example of a disposition that returned proceeds to the FBF. The property consisted of approximately 75 acres of land, a number of small structures, and was improved with four large historic warehouses and one small office building, totaling over one million gross square feet. The property was sold through GSA's competitive online auction process in May 2011 for \$6.425 million. The property was purchased by the City of Fort Worth and it intends to redevelop the property for use as a law enforcement and fire training facility.

GSA is in the process of disposing of the West Heating Plant, a large industrial building on 2 acres of land in Washington DC. Most recently, the plant was used as a backup heating source for several government buildings, but we determined recently it was no longer needed and started the disposal process. It was declared excess to GSA's needs in October 2011 and declared surplus to the government's needs in December 2011. Once this property conveys out of Federal ownership, it will eliminate millions of dollars in maintenance costs to the Federal government over the next decade. The divestiture of the plant will also ensure the property will be put to a productive use by the local community.

Utilizing Our Buildings –

GSA has led Federal efforts to utilize government-owned space effectively. At the end of FY11, GSA's national vacancy rate for all owned and leased assets was 3.4 percent, significantly less than the national private sector rate of 17.4 percent.

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

For example, GSA is modernizing our own headquarters here in Washington DC at 1800 F Street NW. Phase I is fully funded through the Recovery Act, while Phase II will be funded in the outyears. Upon completion of Phase I of the project, GSA will be able to move in our Federal Acquisition Service, currently housed in leases in Northern Virginia, increasing the utilization of our building dramatically and saving taxpayers millions a year in lease costs. GSA anticipates that other savings could also accrue from aspects like reduced operating costs and eliminating shuttle service. The development of the DHS Headquarters campus at St. Elizabeths, also in Washington, D.C., is another critical consolidation and redevelopment project GSA is leading for the

Federal government. This project will be a 4.5 million square foot campus that will consolidate DHS workers from more than 20 locations in the D.C. metropolitan area into one modern and efficient campus thereby saving taxpayers hundreds of millions of dollars compared to the cost of leasing

While budget cuts delayed our efforts to fully realize the benefits of this consolidated campus, GSA will be able to complete the move-in of the first component of the DHS, the US Coast Guard, in FY13. This move will allow GSA to transition federal employees from one million square feet of leased space to federally owned space.

Pursuing Innovative Solutions to Optimize Space and Reduce Costs –

Additionally, 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 hoteling office space. During our renovation, we are prototyping a mobile workplace. In August of last year, a whole division of 87 individuals began occupying space previously occupied by only 43. Aside from three administrative assistants, no one has a personally assigned workstation. The space comprises different types of workspaces, designed to increase teamwork and collaboration, improve productivity, save energy, and improve the utilization of real estate.

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. GSA recently established a new telework policy that makes nearly every GSA employee eligible for telework, and includes additional space saving measures such as hoteling and desk sharing. These practices have the potential to create substantial savings both in real estate and operating costs. GSA is proactively working with its customers to provide guidance on their own telework policies, contributing to costs savings goals resulting from the Presidential Memorandum.

GSA has also started a high priority initiative known as the Client Portfolio Planning (CPP) program to assist our customers in improving asset utilization, in accordance with the President's June 2010 memorandum and Executive Order 13327, "Federal Real Property Asset Management." The overarching goal of the CPP program is to identify, analyze and report current, ongoing and potential portfolio optimization opportunities for our customers. These opportunities will reduce the federal government's economic and environmental footprints, while fully supporting agency missions. GSA established three plans in FY 2011 and in conjunction with tenant agencies, will begin implementation of the plans starting in FY 2012.

Reducing Agency's Leasing Needs –

GSA, in part through these initiatives, is reducing the Federal government's need for leased space and improving utilization.

Unfortunately, Mr. Chairman, these efforts have been hampered by this Committee's inaction on our lease prospectuses. From our FY11 program alone, there are 20 lease prospectuses still under consideration. All of these lease prospectuses have been pending for at minimum a full year and, in many cases, much longer. GSA has proactively gone back and worked with these Federal agencies to reduce lease requirements. Since the initial submission of the prospectuses, GSA has proactively gone back and worked with these Federal agencies to reduce lease requirements..

While we are proud of the potential savings if the committee will approve these actions, we are also anxious about the exposure of taxpayers to the consequences of inaction. Most of these leases represent replacements for already existing space that, if left idle, will fall into holdover, costing taxpayers far more, adding unnecessary administrative complexity and burden to business transactions, and negatively affecting private sector landlords with whom we must negotiate.

I am hopeful we can work with your Committee to move these prospectuses forward as soon as possible and realize these savings.

Legislative Authorities for Disposal, Reinvestment, and Redevelopment –

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 in the FY 2005 Consolidated Appropriations Act,² allows GSA to retain net proceeds from dispositions of its real and related personal property through sale, lease, exchange, or otherwise, including leaseback arrangements.

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*³. 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 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 allowed for restoration of ornamental spaces, replacement of all building systems, and modification to bring the building up to current code requirements. , While we are successfully managing our real estate and making use of our existing authorities, there are challenges inherent to the Federal government's ability to manage its real estate holdings, which is why the President proposed a bill last year that would usher in a new approach to Federal real estate. Building upon the successful model established by the Defense Base Realignment and Closure (BRAC) Commission, the President's proposal would create an independent Board of experts to identify opportunities to consolidate, reduce, and realign the Federal civilian real estate footprint as well as expedite the disposal of properties. This proposal would utilize bundled recommendations, a fast-track Congressional procedure, streamlined disposal and

² P.L. 108-447 (2004).

³ P.L. 106-407 (2000).

consolidation authorities, and a revolving fund replenished by proceeds to provide logistical and financial support to agencies in their disposal of high-value properties. It would serve as a comprehensive solution to key obstacles such as red tape and competing stakeholder interests that hinder the Federal Government's progress on improving real estate management decisions. GSA supports the Administration's goals and those of this Committee and other members of Congress to dispose of unneeded Federal real property and streamline the current disposal process through a civilian property realignment initiative, and meet our obligation to taxpayers to spend every dollar as effectively as possible.

The Old Post Office -

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. The pavilion was occupied with retailers, as well as Federal tenants in the office space. The annex, however, was never fully occupied and its retail use 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*,⁴ and authority provided in Section 111, GSA has been moving forward over the last year to choose a highly qualified developer to begin redeveloping the building and Annex.

We issued a Request for Proposals (RFP) in March of 2011. The RFP allowed the private sector to leverage its expertise in determining what the highest and best use would be for the Old Post Office, with the goal of providing a positive return for the Federal government while maintaining the historic integrity of the building. This RFP has received an immense amount of interest from respected, experienced, and world-class developers and teams.

⁴ H.R. 5001.

Given the long-term nature of this leasehold interest (a proposed 60 years), and the prominent and historic nature of the building, GSA gathered together a team of experts from both the private and public sector to evaluate proposals. These included architects, community advisors, academics, and financial experts. The proposals were rated both on qualitative and quantitative factors. These included the experience and past performance of the developer and the developer's key personnel, the developer's site plan and concept, the developer's financial capacity and capability, and the developer's financial offer and supporting financial information.

I am pleased to state that GSA has completed this review and selected the Trump Organization as the preferred developer to redevelop the Old Post Office. This is a significant step in putting this notable asset to its highest and best use, preserving its historic integrity, providing continued public access to the clock tower in accordance with existing agreements with the National Park Service, providing a positive financial return to the Federal government, and contributing to the vitality of Pennsylvania Avenue, the Federal Triangle, and the District of Columbia.

GSA and the Trump Organization will spend the next year negotiating a detailed agreement for the building's redevelopment. If negotiations proceed as anticipated, redevelopment will commence in 2014 with occupancy in 2016. As always, GSA has continued to fully utilize the available office space and as well as utilize our authority under the Public Buildings Cooperative Use Act to lease the atrium's pavilion to house a food court and retailers while this redevelopment moves forward.

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 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. We are hopeful this committee will join us in these efforts.

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

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