



# U.S. General Services Administration

Robert A. Peck  
Commissioner  
Public Buildings Service

Committee on Transportation and Infrastructure  
Subcommittee on Economic Development, Public Buildings, and  
Emergency Management  
"The Cotton Annex"  
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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 today at the Cotton Annex, a revenue-generating property in Southwest Washington, DC that GSA is currently assessing for productive reuse.

GSA is a leader in government asset management of buildings and leases and we effectively utilize our owned and leased building portfolio. 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).<sup>1</sup> 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 exceed the \$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

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<sup>1</sup> 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.

GSA is in the process of disposing of the West Heating Plant, a large industrial building on two 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 make the property available for productive use by the local community.

Another property we have recently begun disposing of is a GSA owned warehouse located in Gaithersburg, MD that currently houses the U.S. Consumer Product Safety Commission (CPSC). Although the CPSC is not scheduled to move out until this summer, GSA has already declared the property excess and begun the Federal screening process. This 9.5 acre site has eight structures and will save the Government approximately \$2 to \$3 million in avoided maintenance and repair costs.

### *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. In DC, our vacancy rate is even lower at 1.96 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, is beginning to implement them this fiscal year.

#### *Reducing Agency's Leasing Needs –*

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

Mr. Chairman, I am glad the committee moved some of our pending lease prospectuses earlier this month at a full committee markup. However, ten leases from GSA's FY11 leasing program still have not been acted on. All of these lease prospectuses have been pending for at minimum a full year and, in many cases, much longer. As we noted at the hearing at the Old Post Office annex, GSA has proactively gone back and worked with these Federal agencies to reduce lease requirements, with millions of dollars in savings.

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 remaining 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 historic Federal properties, in whole or in part, that are not needed for agency purposes to non-Federal tenants. Section 412 in the FY 2005 Consolidated Appropriations Act,<sup>2</sup> 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*<sup>3</sup>. 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.

And of course, most recently, GSA selected the Trump Organization to begin redeveloping the Old Post Office, with direction and authority provided by Congress in the *Old Post Office Redevelopment Act of 2008*. We are now negotiating a detailed agreement for the building's redevelopment and, if negotiations proceed as anticipated, redevelopment will commence in 2014 with occupancy in 2016. 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

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<sup>2</sup> P.L. 108-447 (2004).

<sup>3</sup> P.L. 106-407 (2000).

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.

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 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 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 Cotton Annex -*

Today, the committee has chosen to host a hearing at the Cotton Annex. The Cotton Annex was constructed in 1937. The building formerly housed the U.S. Department of Agriculture (USDA), who used the building for office and warehouse space. While the building was always in GSA's inventory, USDA was responsible for all operations, maintenance, and repairs during their occupancy.

In 2007, USDA chose to vacate the building, and maintenance and repair responsibilities returned to GSA late that year. In October of 2007, GSA executed an occupancy agreement with the Federal Protective Service to allow the FPS to utilize land on the Cotton Annex complex for their screening facility. FPS utilizes the land to inspect trucks with deliveries for the Ronald Reagan Building International Trade Center.

Importantly, the Cotton Annex generates a positive net income. GSA minimizes operational costs while aiming to ensure no long-term deterioration occurs to the

property. In FY11, operating costs associated with the Cotton Annex complex were \$279,000, which were fully supported by the revenue generated through FPS rent payments in accordance with the agreement signed by the two agencies.

When the property returned to GSA, we initiated a Retention & Disposal Study and an Asset Repositioning Study (ARS) to determine the best course of action for the asset. The R&D study, completed in June of 2008, assessed a variety of possible options for redevelopment or disposal of the site. The findings indicated that the Cotton Annex parcel would present development opportunities for Federal or non-Federal construction. The ARS also found that the parcel would present strong development opportunities, but that retaining the site for Federal construction presented the highest return to the Government. GSA made a decision to hold the property for potential Federal redevelopment as part of the traditional capital program.

To gather more information on the possibilities of non-Federal construction, GSA issued a Request for Information in December of 2008 that asked the private sector to respond to potential redevelopment of one or more of an assemblage of parcels in Southwest Washington, DC, which included the Cotton Annex. GSA's hope was to gather creative development ideas for full utilization of these parcels in an effort to assist our planning purposes. Based on the responses received at that time, GSA decided in July of 2009 not to report the parcels as excess. At that time, future Federal construction still presented the best course of action for the Cotton Annex, given the existing Federal uses of the parcels, the strong demand for Federal office space, and GSA's goal of prioritizing Federally-owned space over leased space.

During this time, GSA also began evaluating the Cotton Annex as part of potential redevelopment scenarios for the renovation/replacement of our Heating Operations and Transmission District (HOTD) as well. The HOTD consists of GSA's Central Heating and Refrigeration Plant (CHRP) and the associated transmission and distribution system, which serve approximately 93 predominantly government buildings and other customers in downtown DC. The CHRP is located proximate to the Cotton Annex complex and may be part of the HOTD solution currently under development.

The current HOTD system presents a variety of challenges. We need to improve the reliability of HOTD while still maintaining existing capacity. Previous system updates are outdated and inefficient, and a major modernization of the CHRP is long overdue, with increasing risks of system failure, among a variety of other ancillary challenges.

This month GSA, with the support of the Department of Energy's Federal Energy Management Program, issued a Notice of Opportunity inviting firms under DOE's Energy Savings Performance Contract Indefinite Delivery/Indefinite Quantity vehicle (ESPC) to submit an expression of interest for a potential task order award to update

and improve the HOTD system. The goals of the opportunity are to: reduce the Federal government's costs of operating the HOTD system; increase the long-term reliability of the system; reduce energy and other costs; improve the quality of heating and cooling; ensure failsafe redundancy of operations; and enhance environmental outcomes of the system's use. GSA currently plans on funding all such work through the energy savings generated by the ESPC task order, with no additional construction appropriation required.

Responses to the Notice of Opportunity were due on March 16, 2012, and we intend to move forward over the next several months to identify a partner to work with on this endeavor. Once the partner is known and we have collaborated on the optimal solution, GSA will be in a better position to know whether the Cotton Annex will be required for modernization of the HOTD system under the ESPC arrangement.

The Cotton Annex represents one of the few remaining developable parcels in DC in GSA's inventory. Given prior studies showing that Federal construction presents the highest and best use of the property, GSA's desire to locate agencies in government-owned space, the potential uses this property may have, and the fact that the property has generated a net positive return, GSA has continued to hold on to this property.

As soon as we better understand the path forward for improvements to HOTD, we will update our plans for the Cotton Annex.

#### *Proposed Legislation –*

Simultaneous to GSA analyzing the Cotton Annex complex, Congress introduced legislative proposals to utilize portions of the parcel. Throughout the past several years, legislation has been proposed that would divide the parcel in question and provide it, with payment of fair market value compensation to the government, to entities for the creation of civic works. That began with efforts to establish a National Health Museum, which contemplated putting the museum on the 12<sup>th</sup> street side of the parcel, where the current building resides.

More recently, there have been a variety of efforts introduced to establish a National Women's History Museum. These efforts have looked to the portion of the parcel north of C Street SW, and would not affect the building we are in today.

GSA has not objected to many of the legislative proposals, as the proposals required compensation of fair market value and protected the public's interest in these properties. Recent proposals in the House, however, have unfortunately revised this

legislation, subjecting the proceeds to future specific appropriations as well as including unrelated projects.

We welcome efforts to more fully utilize property wherever they come from, so long as the public interest is protected.

*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.

While the Cotton Annex may not currently be meeting its full potential, it is a revenue-generating property in GSA's inventory that may present important Governmental uses in the near term. Additionally, Congress has offered additional suggestions for ways the parcel could be utilized.

I welcome the opportunity to be here in the building today to discuss the deliberate way in which GSA has evaluated this property and I welcome your questions.