

Testimony of Mr. James M. Sullivan
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Department of Veterans Affairs
before the
House Committee on Oversight and Government Reform
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Thank you, Chairman Mica, Ranking Member Connolly, and Members of the Subcommittee, for the opportunity to appear today to discuss the Department of Veterans Affairs (VA) management of its real property portfolio, particularly its ongoing efforts to reduce or eliminate vacant and underutilized property. I will also take a moment to articulate VA's need for additional tools that will provide opportunities to reduce VA's portfolio of vacant and underutilized assets.

VA Real Property Portfolio

VA's mission is unique compared to other Federal agencies, in that we operate the nation's largest integrated health care system, with more than 1,700 hospitals, clinics, community living centers, domiciliaries, readjustment counseling centers, and other facilities. Additionally, VA administers a variety of benefits and services, and operates 131 national cemeteries nationwide.

The Department owns and leases real property in hundreds of communities across the U.S., and overseas. Currently, VA manages over 174 million square feet (SF) of space, comprised of approximately 151 million owned SF and 23 million leased SF of building assets. This is a very large footprint, and unlike many Federal agencies, VA owns the large majority of its portfolio – 87 percent of its square footage – which means real estate plays an important role in our overall asset management. The average age of a VA owned building is approaching 60 years old. Approximately 9.9 million SF or 5.7 percent of VA's portfolio, is vacant or underutilized building space.

Federal Real Property Profile (FRPP)

VA submits annual data to the Federal Real Property Profile (FRPP) in accordance with guidance published each year by the Office of Management and Budget (OMB) and U.S. General Services Administration. In 2013, VA reported 7,603 owned and leased buildings. As part of the FRPP submission, for specific classes of assets, VA reports the utilization of those assets. Based on the FRPP guidance, 259 assets were deemed unutilized or underutilized in fiscal year (FY) 2013, or about 4.2 million SF.

VA uses the FRPP as a source of information to improve the performance of its capital asset portfolio. In support of the FRPP data, VA does maintain more detailed information to better manage its assets at the operational and decision making level. This additional detail, managed within our Capital Asset Inventory system, allows summary information reported to FRPP to be deconstructed into lower levels of information more useful in operational decision making. By viewing its portfolio both at the FRPP level and more detailed level, VA is able to provide pertinent data in support of ongoing portfolio management and planning activities.

Capital Asset Management Planning

VA strives to maintain the optimal mix of investments needed to achieve strategic goals and ensure a high level of performance for our assets, while minimizing risk and maximizing cost effectiveness. VA has developed and continues to look for sound capital asset management strategies to assist in maximizing the value of its portfolio by disposing of or reusing underutilized properties.

VA has been a leader in capital asset management planning. VA was one of the first agencies to develop a highly structured, data-driven methodology by which to assess proposed major construction projects. Beginning with the FY 2012 budget formulation process, VA introduced the Strategic Capital Investment Planning (SCIP)

process to prioritize all capital investments based on today and future-identified mission needs.

The SCIP process involves a systematic evaluation of all proposed capital investments across the Department, based on how well they address identified performance gaps (e.g., safety, security, workload-driven capacity shortage, right-sizing, and access for Veterans – including providing housing for homeless Veterans). These gaps specify where current infrastructure or services need to be enhanced, to meet the location and demand of current and future Veteran demographics, or when VA may have excess capacity. Only those capital investment projects that have addressed identified performance gaps are proposed for funding in VA's budget.

All projects are considered in light of VA's aging infrastructure. The SCIP process directly addresses the challenges posed by an aging infrastructure with a range of solutions, including reuse, repurposing, or disposing of unneeded assets. These efforts reduce inefficiencies and decrease the government spatial footprint.

While vacant and underutilized space does exist within the Department, space within VA is not interchangeable. VA needs modern clinical space strategically located to meet Veterans' access needs. Through the SCIP process, VA has identified the need for approximately 16.3 million SF of space over the next 10 years, to meet service-related demands. While reuse of existing space is possible in some cases, much of the older inventory is not suited to meet this additional space need. Balancing the need for more space, while effectively managing an aging infrastructure not specifically suited to meet today's modern modalities of care, presents a significant challenge to VA.

Efforts to Date

VA defines “underutilized” as any property where the current usage does not require the full amount of space that the property affords. VA has made significant progress in its efforts to reduce its vacant and underutilized building footprint, and has aggressively pursued reuse and disposal strategies. This has resulted in a 28-percent reduction in vacant and 37-percent reduction in underutilized building space since FY 2008.

VA continues to pursue disposal, consolidation, and Enhanced-Use Leasing (EUL) opportunities, to support VA’s mission and operations, shed underutilized and vacant assets, and improve efficiency of operations. Currently, approximately 5.1 million SF of VA building space is outleased in public-private partnerships through VA’s EUL authority. This has resulted in over 1,700 operational housing units for homeless Veterans, Veterans that are at-risk for homelessness, and in some situations, their families.

VA’s EUL authority is an innovative real property asset management tool, which VA uses to manage its vacant and underutilized capital assets. It allows VA to outlease such assets to private and public sector entities for the purpose of maximizing returns from underutilized capital assets. This includes leasing vacant historic buildings and excess land, which can be transformed into housing for homeless Veterans, at little or no long-term carrying cost to VA. VA’s EULs are authorized for maximum terms of up to 75 years. The program has provided significant benefits to VA in terms of annual cost savings; increased health care services for Veterans; expanded and improved facilities; substantial private investment in VA’s capital facilities and infrastructure; creation of jobs; and increased tax revenues for local communities.

In December 2011, VA’s EUL authority expired and was later reauthorized, but with a limited focus on supportive housing projects, with no ability for other broader reuse opportunities. While some EULs can be pursued using this limited authority, a

restoration of VA's full, original EUL authority is needed to address some larger vacant and underutilized assets that are not suitable for supportive housing.

When reuse by Department organizations or through EULs is not an option, VA considers other real property modalities, such as demolition or sale. Currently, VA plans to dispose of approximately 6.7 million SF of unneeded or obsolete real property over the next 10 years, pending funding availability. While these plans are in place, there are challenges and roadblocks in successfully executing these plans.

Challenges

Similar to other Federal agencies, VA faces challenges related to underutilized and/or vacant property. The historic nature of much of VA's inventory also limits the ability to dispose of such assets. In some instances, underutilized buildings become suitable candidates for space realignment to better utilize the space. However, given rising demand and the associated increased space requirements, space realignment plans are continually evaluated.

Many of VA's vacant and underutilized assets have limited reuse potential (via EUL or some other method), due to a number of factors. Many are historic or eligible for historic designation. This limits the renovation options, increases necessary renovation costs, and increases the time necessary to pursue reuse. Third party partners often have a difficult time making a reuse project financially feasible given these constraints. In addition to being historic, many of these vacant buildings are in poor condition, and are located in large campus settings with limited or restricted access, both of which also hinders reuse opportunities.

Pursuing disposal options presents similar challenges. Historic properties are often not allowed to be demolished, even when all due diligence is completed. Sale of these properties is difficult, if not impossible, due to their age, condition, and location. And lastly, stakeholder concerns about VA's contemplated disposal of property frequently presents challenges. For these reasons, even though certain historic

buildings are no longer needed to support VA's mission and operations, VA has no choice but to maintain the building in some minimal fashion, as disposal is not possible.

Freeze the Footprint

In addition to reducing excess space and promoting reuse, VA is working to reduce its total office and warehouse building space, to comply with OMB's Freeze the Footprint (FTF) policy. Due to VA's unique mission, compliance with FTF is a challenge, but the Department is working to reduce long-term space needs, by tightening office space standards, digitizing Veterans Benefits Administration paper records, and expanding employee telework usage.

Following successful VA pilots of tightened office space standards for VA's Central Office and VA's Office of Information and Technology (OIT), in 2010 VA broadened its tightened space standards for all office space that is not used to treat or interact with Veterans, effective September 2013. Resulting space standards are now being integrated into all project approval processes, including SCIP, as well as all VA space planning tools. While these new space standards demonstrate VA's commitment to improving utilization of its office space, it likely will take several years to achieve full Departmental compliance with the FTF policy.

Tools

VA welcomes additional tools, such as an expanded EUL authority and the Administration's proposed Civilian Property Realignment Act (CPRA), which would provide further opportunities for reuse or disposal of challenging assets having otherwise limited reuse potential.

CPRA would help VA mitigate some of the challenges that are faced when it comes to disposing difficult properties. Additionally, VA submitted a legislative request in February 2014, to broaden the Department's current EUL authority beyond the providing of "supportive housing," to allow VA to reuse vacant and underutilized land

and buildings that – while not suitable for repurposing as supportive housing – may still have other forms of reuse potential. The intent of this request is to allow VA to manage its infrastructure footprint more efficiently, thereby enabling VA to provide more and improved services to Veterans and their families.

Conclusion

VA has a complex real estate portfolio, and seeks to maintain the optimal mix of investments needed to provide care, services, and benefits to our Nation's Veterans. VA welcomes new or expanded tools to reduce its vacant and underutilized real property assets, establish viable reuses where possible, cut waste, and save taxpayer dollars. The President's CPRA proposal, in combination with expanded EUL authority, and other strategies, will help VA continue to address its most challenging assets.

I appreciate the opportunity to testify on these important topics and look forward to answering your questions.

