

Congress of the United States
House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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WASHINGTON, DC 20515-6143

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<http://oversight.house.gov>

December 23, 2015

The Honorable Denise Turner Roth
Administrator
U.S. General Services Administration
1800 F Street, NW
Washington, DC 20405

Dear Ms. Roth:

I write to inquire about two leases held by Piedmont Office Realty Trust, Inc. (Piedmont). These leases, which are managed by the Public Buildings Service of the General Services Administration (GSA), involve property in the Washington, D.C. area for the National Park Service and the National Aeronautics and Space Administration (NASA) and claims of approximately \$24 million reportedly owed to Piedmont. These leases and the challenges Piedmont has faced in resolving these claims have been an ongoing concern for Piedmont for three to four years. This issue was brought to my attention by my colleague Representative Tom Price (see attached August 13, 2015 letter).

The Piedmont leases appear to illustrate a larger problem of the U.S. Government failing to efficiently manage their real estate, to timely negotiate and extend leases, and fulfill commitments to cover costs attributable to the U.S. Government. With respect to the Piedmont leases, I was concerned to learn that in the case of the National Park Service lease, the contracting officer appears to have poorly performed his responsibilities by refusing to honor previous commitments to pay certain outstanding amounts, and in at least one instance conducted a conference call on the matter while intoxicated.

In the case of the NASA lease, Piedmont completed a full renovation of NASA's headquarters and provided swing space during construction as part of a 15-year lease extension. There were significant delays and related costs for the project since NASA was delayed in moving out of their headquarters. Consequently, the original completion date of September 2013 was delayed until September 2014. I understand Piedmont prepared a document summarizing the subsequent claim at issue and submitted this document to GSA Counsel in June 2012 for the purpose of negotiating a resolution. According to Piedmont, GSA has not responded to this document. In February 2015, Piedmont submitted a claim to GSA and meetings were held to discuss the claim, but eight months later Piedmont only received a partial response from GSA requesting more information. Finally, I understand that \$5 million, of the approximately \$22 million Piedmont claims is owed by the U.S. Government, is no longer in dispute – yet Piedmont has not been compensated.

Please provide a written response by January 11, 2015, on the status of Piedmont leases and GSA's plan, including a timeline to negotiate a settlement of these claims and to timely pay costs owed to Piedmont. Please be prepared to provide a briefing on this issue, should further information be required. The Committee on Oversight and Government Reform is the principal investigative committee in the U.S. House of Representatives. Pursuant to House Rule X, the Committee has authority to investigate "any matter" at "any time."

If you have any questions about this request, please contact Julie Dunne or Katie Bailey of the Committee staff at (202) 225-5074. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jason Chaffetz", is written over the typed name and title.

Jason Chaffetz
Chairman

Enclosure

cc: The Honorable Elijah E. Cummings, Ranking Member



August 13, 2015

Congressman Tom Price
100 Cannon House Office Building
Washington DC 20515

Congressman Tom Price
85-C Mill Street, Suite 300
Roswell, GA 30075
Attention: Kyle McGowan, District Director/Deputy Chief of Staff

Dear Tom:

I enjoyed our lunch gathering in June, and found your answers to the many questions asked by the group that attended to be very insightful. Additionally, I appreciate your receptiveness to discussing the challenges that Piedmont is facing with the General Services Administration (“GSA”). It is with reluctance that I ask for your guidance and assistance when there are so many other larger issues that are more important to the country as a whole.

As background, Piedmont has been a landlord for the United States Government going back approximately 12 years for many different Federal entities including the following: Defense Intelligence Agency, Social Security Administration, Department of Labor, Citizenship and Immigration Services, Food and Drug Administration, Office of Comptroller and Currency (former headquarters), Federal Emergency Management Agency, Internal Revenue Service, U.S. Postal Service, Housing and Urban Development, Army Corps of Engineers, Federal Housing Authority, Corporation for National and Community Service (future headquarters), Pension Benefit Guaranty Corporation, National Park Service (current headquarters), and National Aeronautics and Space Administration (current headquarters). My point being that Piedmont has an extensive history of working with the GSA and various federal agencies on a landlord/customer basis. Generally, I think the client agencies would say that we are a good owner/operator and business partner. However, Piedmont has had to deal with a high degree of bureaucracy, decision making delay, and regulatory requirements not typically found with our commercial landlord/tenant relationships.

Unfortunately, we face two claims with GSA involving two longstanding federal agency customers: National Aeronautics and Space Administration (NASA) and National Park Service (NPS). The claims total almost \$24 million. The claims go back several years, and the GSA has shown no urgency in resolving them, despite the fact that GSA representatives have acknowledged there is no dispute regarding a portion of the claim representing approximately \$5 million. I have provided summary information of both claims below.

The NASA claim involves the 15 year extension of its headquarters lease with Piedmont at 300 E Street, SW in Washington, DC. As part of the lease extension, Piedmont completed a full renovation of NASA’s headquarters between April 2012 and September 2014. During construction, Piedmont was obligated to provide “swing space” at other Piedmont buildings. Within several months of lease execution, NASA was already delayed in moving out of its headquarters space and into the temporary swing space at Piedmont’s 1201 and 1225 Eye Street, NW properties. This caused significant delays and related issues. Per the lease, renovation of NASA’s headquarters premises was originally planned to start in November 2011 and end in September 2013 but, as mentioned, completion was delayed until September 2014.

Because of the magnitude of the NASA claim with GSA, Piedmont invested a significant amount of time and legal fees to prepare a 28-page Legal Summary, and pertinent exhibits. Piedmont prepared this document with the goal of resolving the claim early on in the project. This document was sent to GSA in-house Counsel in June of 2012. To date over three years later, GSA has not responded to this Legal Summary.

In February 2015, Piedmont followed up its Legal Summary with a detailed claim in the amount of \$22,188,750 for the following issues that occurred during the renovation of NASA's headquarters premises:

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|-------------|------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| \$7,995,377 | Remaining Tenant Improvement Allowance Overage owed by GSA to Piedmont | <ul style="list-style-type: none">• The GSA Contracting Officer does not dispute approximately \$5M of this portion of the claim; however, GSA has not paid this amount to date. |
| \$3,339,080 | General Conditions and Fees (Construction and Audio Visual) | <ul style="list-style-type: none">• Piedmont's lease with GSA states that the General Conditions and Fees payable to Piedmont shall be 7% and 3%. |
| \$9,858,811 | Delay Costs | <ul style="list-style-type: none">• Delayed rental revenue to Piedmont for NASA's Headquarters and their swing space at Piedmont's 1201 and 1225 Eye Street properties. |
| \$ 420,745 | Telecommunication Costs at Swing Space | <ul style="list-style-type: none">• Piedmont incurred monthly costs from Verizon for NASA's telecommunication needs during its use of the swing space; telecommunication costs were the responsibility of GSA per the lease. |
| \$ 574,737 | Design Costs Above Cap in Lease | <ul style="list-style-type: none">• Per Piedmont's lease with GSA, Piedmont is responsible for all design costs based on a \$45.59 / SF Tenant Improvement allowance. The cost for the base Tenant Improvement work exceeded this cap in the lease, and GSA is obligated to reimburse Piedmont for those costs. |

Unfortunately, as of the date of this letter, Piedmont has not received a comprehensive response to our NASA claim from the GSA. We have had some preliminary discussions with GSA and NASA, but have not made any significant progress or received a formal response to our February, 2015 claim. As of our last meeting in July, 2015, GSA committed to providing a response by the third week of August. At this point, we are not confident that GSA will respond with anything significant to move us closer to resolution. However, on June 15th or 16th, GSA did wire Piedmont over \$15,000,000 without explanation. Then almost immediately, requested the return of these funds. This significant error, along with the NPS issues described below, has Piedmont very concerned that we will not have timely and complete resolution of the NASA claim with GSA.

The NPS claim involves its lease with Piedmont at 1201 Eye Street, NW in Washington, DC. The lease is scheduled to expire in July 2017. At the time of the most recent renewal, effective in July 2012, a key deal

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term was the government's obligation to reimburse Piedmont for increases in expenses associated with operating the building. The reimbursement of these expenses was a deal term that was discussed frequently throughout negotiations, and was supported by a fully executed lease. The particular language in the lease was also consistent with how other GSA leases have dealt with building operating expenses in the DC area. GSA has simply not paid these reimbursement obligations, which currently total over \$1.3 million. We estimate that at the time of lease expiration, the amount due to Piedmont will be approximately \$1.8 million.

We have been spending significant hours and substantial legal fees trying to collect these funds. We have had multiple meetings with GSA seeking resolution. These meetings have ultimately been unproductive with little cooperation from the GSA Contracting Officer, including refusing to honor previous commitments to pay the amount outstanding and participating in conference calls while apparently being intoxicated. A specific example relates to our last face to face meeting with the GSA in late May, 2015. At the time the Contracting Officer agreed in front of multiple witnesses including GSA Counsel and Piedmont attorneys to process the payment of our claim. Shortly thereafter when Piedmont tried to document our resolution, the Contracting Officer changed his mind and would not proceed. The Contracting Officer who signed the lease renewal has offered no rebuttal to our position throughout the process other than to simply state on occasion "that wasn't the deal". When GSA back-tracked on the previously mentioned commitment, Piedmont made the decision to file a certified claim with GSA for the current amount due of \$1.3 million.

To conclude, given the amount at stake for our company and our shareholders, I would greatly appreciate any assistance or ideas on how to best accelerate the collection of these monies due to Piedmont. I welcome the opportunity to discuss this further with you or your staff. I can be reached at 770-418-8601.

Sincerely,

A handwritten signature in blue ink, appearing to read "D Miller", with a long horizontal flourish extending to the right.

Donald A. Miller, CFA
President and Chief Executive Officer
Piedmont Office Realty Trust