CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

June 27, 2011

Honorable Darrell E. Issa
Chairman
Committee on Oversight
and Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Congressman,

This letter responds to your request for the Congressional Budget Office (CBO) to analyze the President's legislative proposal to expedite the disposal of federal civilian real property. The President included such a proposal in his 2012 budget submission to the Congress in February; recently, the Administration also transmitted draft legislation to the Congress entitled the Civilian Property Realignment Act, which is similar to the proposal in the President's 2012 budget.

In its estimate of the proposal included in the President's budget submission, CBO concluded that the proposal would increase direct spending by $60 million over the 2012-2021 period. Such increases would result because, although the legislation might induce some agencies to sell additional properties that may not be sold under current law, the proposal also would allow agencies to spend a portion of sale proceeds that will accrue to the federal government under current law and that otherwise could not be spent. In addition, CBO estimates that implementing the proposal would cost $420 million over the 2012-2016 period, assuming the appropriation of the necessary amounts, to prepare properties for sale or transfer.

The Administration estimates that its proposal would result in more than $16 billion in additional gross receipts over the 2013-2017 period—or an average of more than $3 billion per year from property sales. CBO reviewed the results of similar efforts in the past to dispose of unneeded federal properties and concludes that the legislation would probably not result in a significant increase in proceeds from the sale of federal properties over the next 10 years because we expect that the number of properties sold would not be significantly higher than what would be sold under current law. However, CBO concurs with the Administration that its proposal could result in additional properties being disposed of in other ways that would reduce the need for future appropriated funds to maintain them. If such reductions occur, implementing the legislative proposal would yield savings in discretionary spending.

The President's Proposal

The President proposes to create a Civilian Property Realignment Board (CPRB) to identify opportunities to dispose of unneeded real property owned by the federal government and to consolidate and optimize the use of federally owned facilities. Under the proposal, the board would present to the Congress recommendations to dispose of specific properties. Unless the Congress disapproved of those recommendations, the Administration would implement the recommendations.

As an incentive to dispose of unneeded property, agencies would be allowed to retain and spend up to 40 percent of the net proceeds from the sale of properties under their jurisdiction. The legislation envisions that, eventually, sale proceeds would pay for the board and the costs to prepare other unneeded property for sale or disposal.

The CPRB would be modeled on the commission created as part of the Base Realignment and Closure Program (BRAC). BRAC was created in 1988 to dispose of unneeded federal properties managed by defense agencies. Under that program, the Secretary of Defense forwards recommendations to realign and close defense-related properties to the BRAC Commission. The commission, appointed by the President, evaluates the list and has the opportunity to add properties to it. The President then approves or disapproves the list in its entirety. If approved, the list is forwarded to the Congress to approve or disapprove within 45 days. If approved (or after 45 days of Congressional inaction), the commission begins disposing of the properties through transfer to other federal agencies, conveyance for a nominal amount to nonfederal entities, or sale.

CBO Estimates That the President's Property Proposal Would Not Result in Significant Additional Sales Receipts

CBO does not expect that the proposed CPRB legislation would significantly increase the proceeds from the sale of unneeded federal properties above the amounts expected under current law. That conclusion is based on the experience of the BRAC program and other previous initiatives to dispose of unneeded federal properties, the incentives that some agencies have to retain unneeded properties, and the uncertain market value of properties that are already being sold and disposed of under current law.

BRAC Process Has Resulted In Modest Sales Proceeds. BRAC was created to align the nation's inventory of defense-related real property with the needs of the military. The commission was not directed to maximize the return to the Treasury from disposing of unneeded assets but to reduce expenditures on operations and maintenance and to reorganize the geographic disposition of military forces more efficiently. Over the past 20 years, more than 350 military installations have been sold or conveyed to nonfederal entities through the BRAC process. Proceeds from sales have amounted to about $1 billion—an annual average of less than $50 million. More than half of the net receipts over this period resulted from the sale of a single Marine Corps Air Station in California.[1]

While the disposal of federal defense properties through the BRAC process sometimes has resulted in some additional receipts, proponents of the program argue that transfer of the properties to nonfederal entities has provided even greater benefits to the Treasury because such transfers have eliminated the need to maintain the facilities. It is true that needed spending for maintaining federal facilities has been reduced by those transfers; however, the ultimate savings to the government have depended on the total level of appropriations later provided by the Congress. In other words, the Congress may choose to save funds no longer required to maintain transferred federal facilities in the Treasury, or it may appropriate those amounts for other purposes.

Other Previous Efforts to Dispose of Unneeded Federal Properties Have Had Mixed Results. Past attempts to legislatively direct the sale of federal real property have taken significant time to complete and have had mixed results. A few examples of high-profile sales of federally owned

1. http://www.gao.gov/new.items/d05785.pdf, p. 48.

properties that were specifically directed by legislation include:

- Governors Island, a 172-acre island in Upper New York Bay near Manhattan. The Balanced Budget Act of 1997 required the General Services Administration (GSA) to dispose of the property at fair market value. GSA appraised the property at $500 million (later revised to $300 million) but sold it to the state of New York for $1.[2]

- The Presidio in San Francisco, a 1,491-acre area in San Francisco, California. The area was slated for disposal through the BRAC process in 1994. The property was not sold; instead, it is mostly managed by the Presidio Trust, a public-private partnership that receives an annual federal appropriation.

- The main Chicago Post Office, which had an estimated replacement value of $300 million.[3] This building was eventually auctioned in 2009 for $20 million, 12 years after the building was vacated.[4]

The government has occasionally succeeded in selling properties for significant proceeds. For example, in 2007, the Department of State sold its Navy Annex building in London for $494 million.[5] Similarly, the United States Postal Service sold the Farley Building in New York City for $230 million.[6] However, in both cases the agencies had authority to retain and spend all of the proceeds from those sales, and thus, their disposal did not yield any net budget savings.

In 2004, President Bush issued Executive Order 13327, *Federal Real Property Asset Management*, and set a goal of reducing the net expense of unneeded federal buildings by $15 billion by 2015. The current Administration issued a Presidential Memorandum, *Disposing of Unneeded Federal Real Estate*, on June 10, 2010. That memorandum called on

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2. http://psc.som.yale.edu/sites/psc.som.yale.edu/files/Case_Governors%20Island%20Final%20and%20Complete.pdf p. 2.

3. http://www.uspsoig.gov/foia_files/SA-WP-09-001.pdf.

4. Melissa Harris, "Familiar Face Top Bidder for Post Office; Davies Closes on Building after Winning 2nd Round," Chicago Tribune, October 22, 2009, p. 25.

5. http://www.gao.gov/new.items/d09283r.pdf, p. 11.

6. http://www.usps.com/financials/_pdf/AR2007_final.pdf, p. 47.
http://www.usps.com/financials/_pdf/annual_report-2008.pdf, p. 56.
http://www.usps.com/financials/_pdf/annual_report_2009.pdf, p. 73.

civilian federal agencies to produce cost savings of at least $3 billion by 2012. Those net savings were to result from additional sale proceeds as well as from reducing operating costs as properties were disposed of and space was consolidated. CBO is not aware of any comprehensive reports regarding progress toward achieving those goals, but we expect that even if property disposal efforts do not result in substantial additional receipts to the Treasury, significant savings could result from eliminating operation and maintenance costs for such facilities.

Many Agencies With Unneeded But Valuable Property Would Have Little Additional Incentive to Sell It. The purpose of the proposed CPRB is to increase above current levels the volume of unneeded federal properties that are sold or disposed of. However, in CBO's view, the proposal does not offer many agencies sufficient new financial incentives to part with valuable unneeded properties.

The President's proposal would allow agencies to retain up to 40 percent of the net proceeds of property sales as an incentive to dispose of unneeded property. Some smaller agencies that own property probably would consider the opportunity to retain some of the sales proceeds as an incentive to sell additional unneeded property. However, those agencies that would have sold properties under current law would be able to spend some of those proceeds under the proposal, which would generate a cost to the government.

Moreover, other federal agencies that manage real property can already retain and spend 100 percent of excess property sale proceeds under current law. Thus, the President's proposal would offer no incentive to increase the pace of sales for those agencies. Furthermore, some of the largest civilian agencies, such as the Departments of Veterans Affairs, the Treasury, and Energy, as well as the General Services Administration, already have authorities under current law to enter into enhanced-use leases that are often more lucrative for them. With such authority, agencies lease underutilized land and facilities in exchange for cash or in-kind services; agencies have thereby secured private financing for the construction and renovation of buildings, power plants, and other infrastructure needs outside of the appropriation process.[7]

7. Congressional Budget Office, *Third-Party Financing of Federal Projects* (June 1, 2005). http://www.cbo.gov/ftpdocs/63xx/doc6399/06-01-thirdparty financing_brief.pdf.

CBO estimates that, on balance, allowing agencies to keep 40 percent of sale proceeds would lead to a net loss of receipts from property sales expected under current law.

Current Inventory of Excess Property Has Uncertain Market Value and Is Already Being Disposed of Under Current Law. The Administration recently released information about 12,000 federal buildings and structures currently designated as excess.[8] The properties, which mainly consist of buildings, warehouses, sheds, roads, bridges, towers, and other facilities, can be disposed of or sold under current law. They are located across the country in rural and urban areas, and many are on land controlled by the National Park Service or the Forest Service.

Data from the Administration's list suggests that gaining billions of dollars from the sale of such properties, even if some additional sales were triggered by the President's proposal, is unlikely. About one-third of the excess properties listed are held by defense agencies and sale or disposal of defense facilities would not be a responsibility of the proposed CPRB. In addition, according to the report:

- 45 percent of the listed properties are already in the process of being disposed under current law;

- 28 percent will probably be demolished;

- 20 percent have either already been disposed of, are no longer considered excess, or have been transferred to another federal agency;

- About 6 percent are slated to be conveyed for little or no cost to another public entity or transferred for economic development purposes; and

- Less than 1 percent (about 30) of the excess properties and structures are expected to be sold. Of those 30 properties, three are listed as federal office buildings. The largest of those is in Portland, Oregon. That building was sold at auction in 2010 for $2.5 million.[9]

8. http://www.whitehouse.gov/issues/fiscal/excess-property-map.

9. http://www.bizjournals.com/portland/stories/2010/10/04/daily3.html.

In order for the Civilian Property Realignment proposal to generate significant additional budgetary savings from property sales, additional properties would have to be identified, and it appears that those properties would need to be much more valuable in the private marketplace than the ones currently on the Administration's list.

The President's Property Proposal Could Reduce the Need for Future Appropriations to Maintain Real Property

The sale, transfer, or disposal of federal property would lead to a reduction in the need for appropriated funds to maintain and improve federal properties. The Government Accountability Office (GAO) has reported that operations and maintenance costs typically account for 60 percent to 85 percent of the lifetime costs of owning a building.[10] Such savings would accrue even if the proceeds from selling or transferring a particular property are negligible. GAO notes that in 2009, government agencies, including the Department of Defense, reported about $1.7 billion in annual operating costs associated with underutilized federal buildings. Disposing of such buildings and eliminating those annual operating costs could significantly reduce future spending if appropriations were reduced by corresponding amounts. The potential size of such reductions would depend on what specific properties were disposed of.

I hope this information is helpful to you. If you would like further details about this estimate, the CBO staff contact is Matthew Pickford.

Sincerely,

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

Enclosure

cc: Honorable Elijah E. Cummings
Ranking Member

10. http://gao.gov/new.items/d11318sp.pdf, p. 222.