



U.S. General Services Administration

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“Oversight of the DHS Headquarters Project at St. Elizabeths:
Impact on the Taxpayer”

Committee on Homeland Security
Subcommittee on Oversight and Management Efficiency
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Introduction

Good morning Chairman Duncan, Ranking Member Barber, and Members of the Subcommittee. My name is Norman Dong, and I am the Commissioner of the U.S. General Services Administration's Public Buildings Service. Thank you for inviting me to discuss the ongoing consolidation of the Department of Homeland Security's Headquarters components at St. Elizabeths in Washington DC.

GSA's mission is to deliver the best value in real estate, acquisition, and technology services to government and the American people. To meet this mission, GSA is working with agencies across the Federal government to reduce space requirements, improve space utilization, reduce real estate costs, and deliver better space that allows our Federal partners to better achieve their missions.

I'd like to make three points today. First, the development of a consolidated DHS Headquarters at St. Elizabeths is a critical piece of GSA's broader effort to consolidate government real estate and reduce overhead costs across government. Second, GSA and DHS have developed a strong record of success in project delivery at St. Elizabeths. GSA and DHS delivered Phase 1 of the DHS Headquarters project on time and on budget. Third, as the Government Accountability Office correctly notes, funding uncertainty has created serious challenges for St. Elizabeths, increasing costs and forcing GSA and DHS to extend the project delivery schedule.

Opportunities for savings with a consolidated DHS Headquarters

As a part of the Administration's Freeze the Footprint initiative, GSA is helping our partner Federal agencies minimize overhead costs and make more efficient use of the government's real property assets. We are working with agencies to reduce space requirements and shrink real estate footprints, reducing building's operating costs through energy-efficient retrofits and "smart building" technology, and leveraging partnerships with the private sector to deliver better, more efficient space to meet agency mission needs.

The St. Elizabeths project represents an opportunity to help achieve these important goals. By consolidating DHS Headquarters, we can reduce future real estate costs, enhance mission effectiveness through co-location, and redevelop an underutilized asset already in the Federal portfolio.

Consolidating DHS headquarters operations in one location will eliminate more than 50 DHS leases, shifting millions of square feet of leased space to a federally owned campus. As GAO has

noted, long-term leasing is typically far more expensive than government ownership, especially when it comes to unique governmental requirements like those that are required at St. Elizabeths. In the case of St. Elizabeths, the 30-year present value cost of construction is \$698 million less than leasing. This results in an annual savings of more than \$35 million.

Additionally, we are generating additional savings by housing more people in less space. When the entire project is complete, St. Elizabeths will provide space for 14,000 seats. Through implementation of flexible workplace strategies, these 14,000 seats can be leveraged to accommodate many more employees, and GSA is currently working with DHS on this updated approach.

At the same time, co-location will facilitate an effective response in case of a national emergency, optimize internal coordination and communication, and foster a cohesive culture among the many agencies that now make up the Department.

On-time, on-budget delivery of Phase 1 of St. Elizabeths

Ultimately, the success of the St. Elizabeths project will be judged by its results. Project delivery at St. Elizabeths thus far has been a success.

GSA and DHS have successfully delivered Phase 1 of the project, construction of the new Douglas A. Munro Coast Guard Headquarters Building. This state-of-the-art facility will use sustainable technologies to drop energy use to more than 30 percent below industry standards and cut water usage by nearly 50 percent. Additionally, this phase included perimeter security, the renovation of several historic buildings, infrastructure improvements throughout the campus, and a 2,000 car parking garage. We completed Phase 1 on time and on budget, and in the process, eliminated five leases and moved nearly 1 million square feet of space to federal ownership. As a result, the Coast Guard completed its move to a building on the St. Elizabeths campus that can accommodate 3,700 personnel in 2013.

We are now beginning work on the next phase of the DHS Consolidation. Congress provided \$155 million in FY 2014 for adaptive reuse of the historic Center Building. GSA's FY 2015 budget request includes \$250 million to complete needed infrastructure and renovate buildings adjoining the Center Building. This funding will allow DHS to fully occupy the Center Building Complex.

In addition to GSA's annual budget requests, we are seeking alternative mechanisms for project delivery. GSA is leveraging the value of other properties in our portfolio to expedite delivery of the St. Elizabeths campus. Specifically, as a part of our Federal Triangle South project, we are

engaging the private sector to exchange GSA's Regional Office Building and the vacant Cotton Annex for construction services that may include renovations of historic buildings at the St. Elizabeths campus.

The impacts of cuts in funding on project costs and schedule

Of course, funding constraints have had a considerable impact on the St. Elizabeths project, much like the rest of the federal real estate portfolio. As GAO has noted many times, uncertainty in funding and limited access to the Federal Buildings Fund create a serious challenge for the management of real property.¹

For St. Elizabeths, piecemeal funding of project phases have resulted in an extended schedule and eliminated additional opportunities to reduce costs through sharing resources and infrastructure among phases. Congress appropriated resources for the project at a level far below the President's budget request in Fiscal Years 2011 and 2012. In the absence of stable funding, the schedule for project completion will face delays, and costs increase with delays.

You can see the effect of funding constraints on the Center Building. In FY 2011, GSA's budget request included \$381 million to continue the project, including for the renovation of the Center Building. Congress cut GSA's new construction budget request that year by 92 percent, and we were only able to allocate \$30 million to St. Elizabeths. Since that time, the cost of completing the Center Building has increased by \$17 million.

When we began the St. Elizabeths project in 2006, the project was scheduled for completion in 2016 at a total government cost of \$3.4 billion. Due to funding cuts, GSA and DHS had to revise the project strategy resulting in smaller segments over a longer period that are more manageable in this environment. This has pushed the project timeline for completion out to 2026, and, largely due to inflation over that period of time, the total estimated project cost is now \$4.5 billion. Accelerating the remaining project schedule could reduce these additional costs.

GSA appreciates GAO's recommendations that Congress consider alternative budget structures that allow for greater consistency in funding and project planning. Until GSA has full and consistent access to the Federal Buildings Fund, we will continue to see cost increases and

¹ See "Capital Financing: Alternative Approaches to Budgeting for Federal Real Property" (GAO-14-239) and "Federal Buildings Fund: Improved Transparency and Long-term Plan Needed to Clarify Capital Funding Priorities" (GAO-12-646).

schedule delays for long-term, multi-phase government construction projects. St. Elizabeths is no exception.

Incorporating GAO recommendations into ongoing project planning and execution

While we are very pleased with our execution of the St. Elizabeths project thus far, GSA recognizes and appreciates that there are always opportunities to improve project delivery. GAO has recommended that we conduct a comprehensive needs assessment and alternatives analysis to identify the costs and benefits of construction and leasing project delivery methods. We have already begun this assessment, and will develop an alternatives analysis that further improves efficiency and savings. We are working with DHS to improve processes and reduce costs by decreasing the footprint, reexamining certain requirements, and integrating the efficient use of leased space based on a review of DHS leases throughout the National Capital Region.

We will update cost and schedule estimates as we continue this work, and appreciate the chance to potentially incorporate practices recommended by GAO. Not all of GAO's cited procedures and reviews apply in the context of real estate construction. Some recommended practices are better suited to weapons systems, spacecraft, aircraft carriers, and software systems. However, we agree with GAO that quantifying risk and uncertainty are important considerations in this funding environment, and we will incorporate these considerations moving forward. We are working closely with DHS, and together, we are happy to update this Committee as we finalize this plan.

Conclusion

Thank you for the opportunity to speak with you today about our ongoing work to consolidate DHS Headquarters components at St. Elizabeths. I welcome the opportunity to discuss GSA's commitment to shrinking the Federal government's real property footprint and consolidating out of costly leases. I am happy to answer any questions you may have.