

STATEMENT OF MR. DAN MATHEWS
COMMISSIONER PUBLIC BUILDINGS SERVICE U.S. GENERAL SERVICES
ADMINISTRATION
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SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, AND
EMERGENCY MANAGEMENT

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Good morning Chairwoman Titus, Ranking Member Meadows, and Members of the Subcommittee. My name is Dan Mathews, and I am the Commissioner of the Public Buildings Service (PBS) at the U.S. General Services Administration (GSA). The purpose of my testimony today is to help explain the GSA history of the Old Post Office redevelopment project and detail how the agency has responded to the recommendation of the GSA Office of Inspector General (OIG) following its evaluation of the outlease.

Since this is my first time testifying before the Subcommittee -- and many of my former Capitol Hill colleagues -- I would also like to take the opportunity to discuss how PBS is building on its success to more efficiently and effectively support customer agencies achieve their mission, while saving taxpayer money.

Today, PBS is advancing this work through three strategic initiatives: lease cost avoidance, real estate footprint optimization, and our internal productivity initiative.

Old Post Office Redevelopment Act

As many of you know, prior to joining GSA in August of 2017, I served as the Staff Director for both the majority and minority staff of this Subcommittee for almost 15 years. During my tenure, one of the issues that received strong bipartisan support was how to address the serious disrepair and occupancy problems at the Old Post Office building. This effort resulted in the bipartisan passage and enactment of the Old Post Office Building Redevelopment Act of 2008 (the Act). This legislation directed GSA to redevelop the property on Pennsylvania Avenue in between the White House and Capitol, while maintaining Federal ownership and the historic integrity of the facility.

Pursuant to the Act, GSA conducted a full and open competition, which resulted in the selection of the Trump Organization as the preferred private sector entity to redevelop the Old Post Office. In 2013, GSA signed a lease with the Trump Old Post Office, LLC. In accordance with the lease, the LLC pays rent for 60 years to use the Old Post Office facility as a hotel. Additionally, the lease provides for the potential of revenue sharing with GSA and the American taxpayer. Finally, the lease ensures the historic preservation and integrity of the building, as well as public access to the clock tower and observation deck.

The Act and subsequent repositioning of the Old Post Office created a substantial financial benefit for the government and taxpayers. Prior to the outlease and redevelopment of the property, GSA operated the facility at a significant annual loss. As this Committee noted in its Committee Report on the Act, in 2007, GSA collected \$5.4 million in rent payments from tenants, while spending \$11.9 million to operate and maintain the property. On top of this \$6 million annual loss, it was estimated that it would take an investment of approximately \$200 million to renovate the building to address maintenance backlogs and turn the facility into a modern office building. Understanding the challenges associated with such an investment, Congress directed GSA to follow through on its proposed plan to redevelop the building through a public-private partnership. Today, as a direct result of the Act, instead of a multi-million dollar annual operating loss, GSA now receives a monthly rent payment \$267,653 and the historic property has been fully renovated with private funds and is maintained to a high standard.

Old Post Office Lease Administration

While the Inspector General's review of the Old Post Office outlease "did not seek to determine whether the President's interest in the hotel violates either the Emoluments Clauses or Section 37.19 of the lease," both of these issues continue to generate questions from Members of Congress. With respect to the Emoluments Clauses, it would be inappropriate for GSA to weigh in on that issue while it is the subject of active litigations. The first lawsuit alleging violations of the Emoluments Clauses was filed in the Southern District of New York on January 23, 2017—the first full business day following the President's inauguration. Additional suits have been filed since that time. Accordingly, the meaning and application of the Emoluments Clauses has been the subject of active litigation for the entirety of this Administration. The Department of Justice has taken the position in those cases that the President's interest in the Trump International Hotel does not violate the Constitution. The Committee can rest assured that if and when these issues are conclusively resolved as a matter of law, GSA would faithfully adhere to those legal determinations.

With respect to Section 37.19 of the lease, GSA followed a fairly typical process for determining compliance with the terms and conditions of a lease. The career contracting officer, who has the legal authority and responsibility for making contract decisions, worked in consultation with career attorneys from GSA's Office of General Counsel to make this decision. As a result of that process, in a March 2017 determination by the career contracting officer, GSA found the tenant in compliance with Section 37.19 of the lease.

As the Committee is aware, following the Contracting Officer's determination, GSA's OIG conducted a very detailed and thorough 16-month investigation into the management and administration of the Old Post Office building lease. Given the title of this hearing, I believe one key aspect of the review is absolutely vital to reiterate: the OIG found no instances of undue influence or interference on the career civil servants charged with administering the lease.

Furthermore, as noted in our response to the review, GSA agreed with the report's single recommendation as the agency understood it and will take action consistent with that recommendation prior to continuing to use the language of Section 37.19 of the Old Post Office building lease in the future.

Lastly, GSA has also worked diligently to respond to Congressional oversight requests concerning this project, including requests from this Committee. As part of this effort, GSA has provided more than 3,000 documents and 10,000 pages of material in response to this Committee's requests, in addition to numerous briefings on this topic.

PBS Strategic Initiatives

I would like to focus on PBS's strategic initiatives I mentioned at the beginning of my testimony. GSA's leased portfolio consists of more than 8,000 leases equating to more than 187 million rentable square feet of space. Leasing represents more than half of PBS's total expenditures and 66 percent of those leases are due to expire during the next five years. That's more than 100 million square feet of leased set to expire. The lifetime contract value of these leases is about \$60 billion dollars. Over the next few years, GSA's goal is to trim billions from that figure by negotiating longer firm terms with lessors in order to secure lower rental rates, concessions, and other discounts.

GSA is also prioritizing the improved optimization of our owned inventory of more than 1,600 federal buildings. By investing in our owned portfolio, building conditions and utilization rates will improve. One example of this strategy at work is GSA's FY20 funding request to restack the Suitland Federal Center campus in Suitland, Maryland. This effort will allow Federal agencies to move out of expensive, leased space in the District of Columbia into a modern GSA-owned building, saving the taxpayer potentially \$244 million over the next 10 years.

Finally, GSA is leveraging its human capital, technology, and business processes to improve agency productivity and efficiency. By ensuring we have the right people in the right places, with the right technology and resources, we will be strategically positioned to achieve our goals with regard to lease cost avoidance and real estate footprint optimization.

In closing, GSA is committed to carrying out its mission of delivering the best value in real estate for the Federal government and the American taxpayer.

I thank the Subcommittee for the opportunity to testify today and look forward to answering your questions.