Jeffery Orner

Chief Readiness Support Officer & Agency Senior Real Property Officer

U.S. Department of Homeland Security

Testimony

Before the Subcommittee on Economic Development, Public Buildings and Emergency Management of the House Committee on Transportation and Infrastructure

July 30, 2014

Thank you Chairman Barletta, Ranking Member Carson, and Members of the Subcommittee for the opportunity to explain how the Department of Homeland Security (DHS) manages its real estate to meet mission support requirements in an efficient and effective manner. Today, I will discuss the Department's management approach to reducing the costs and size of our real estate footprint while we maintain our support of the Department's important homeland security mission. This testimony will also address DHS's office lease strategy, particularly how we will address office lease expirations during the next 5 years. I will speak to the progress and the positive impacts of the "Freeze the Footprint" initiative on DHS lease expirations both nationwide and within the National Capital Region (NCR). Finally, I will discuss how the Department and the General Services Administration (GSA) collaborate to address lease expirations strategically, with a view to manage impacts and reduce risks to both the DHS mission and GSA's core real estate business.

The Portfolio

The DHS real estate portfolio includes 14,000 buildings containing an aggregate 99 million square feet. Leases through GSA, and directly from the private sector, account for a little more than half the total at 56 million square feet. Payments on these leases account for 82% of annual

DHS operating outlay for real estate at $1.7 billion. The owned building portfolio accounts for 43 million square feet, with annual operating and maintenance costs of approximately $363 million. The current replacement value of DHS owned assets is currently an estimated $29 billion. DHS manages a variety of real estate assets from offices, warehouses, military family housing, labs, shore facilities, and structures such as navigational aids and utility systems. Our two largest components, U.S. Coast Guard and U.S. Customs and Border Protection (CBP), occupy 90% of DHS real property assets.

Portfolio Planning

The Department develops multi-year plans and strategies focused on increasing utilization and reducing costs of real property. A fully optimized real property portfolio is an elusive goal because mission needs change, but conscientious portfolio planning identifies reductions in 'footprints' and efficiencies in real property as opportunities arise.

DHS views lease expirations as the ideal opportunity for consolidation and economy. Over the next 5 years, 15 million office square feet nationally will be expiring (27% of the total leased building portfolio or 48% of the leased office portfolio), with a five year rent cost of $545 million or an average annual rent of $36.15 per square foot. We use the Department's five-year plan to monitor all expirations and to oversee planning and governance to ensure that the Department's footprint and lease costs are optimally managed. To support the Department's space reduction efforts, we provide planning guidance and direction that new housing plans and space requirements for all new office space must have a utilization rate of 150 usable square feet per person, or less. This targeted utilization rate was developed in a study completed in 2012, conducted by DHS in partnership with GSA and all component headquarters. This study, known as the DHS NCR Workplace Recommendations Report (WRR), helped inform the DHS Workplace Standard. The WRR defined a range of planning targets to accommodate a mixture of work styles and practices, including mobile work. The Standard supports a significant transformation from traditional office space to a more mobile work environment. The study indicates that an average office utilization rate of 150 square feet per employee is a reasonable and achievable target.

GSA Collaboration

DHS and GSA are partners in this effort: their NCR Portfolio Management Office, DHS account managers, and the GSA Workplace Solutions groups assist the Department with the effective implementation of our new Workplace Standard. My office has also made itself available to assist DHS component groups as they go through this space reduction process for the first time. This type of collaboration was instrumental in achieving significant efficiencies in the new lease space being provided at One World Trade Center in lower Manhattan. Although the occupancy is still in progress, CBP (a DHS component) will realize a 45% reduction in occupied space by implementing more flexible space design and incorporating mobile workspace concepts. This occupancy will result in a base rent reduction of approximately $2.7 million annually, and an annual cost savings of $5 million. Thus, DHS headquarters partnered with CBP and GSA to achieve higher occupancy in one of the most iconic buildings in the world, despite the challenges of distance, component field culture, change management, and new work practices.

DHS also continues to work with GSA on our headquarters consolidation project. In support of this effort, the Department's FY 2015 budget request includes $57.7 million to complete the work necessary to fully occupy the Center Building Complex. Consolidation will allow the strategic realignment of the real property portfolio in the NCR to more effectively and efficiently support the DHS mission. In addition, consolidation will contribute to reduced facility costs and will provide quality workspace to attract and retain the best professional workforce.

Federal Real Property Plan

DHS submitted the DHS Revised Real Property Cost Savings and Innovation Plan to the Office of Management and Budget on September 3, 2013. This DHS Revised Cost Savings Plan responded to OMB Management Procedures Memorandum No. 2013-12, Implementation of OMB Memorandum M-12-12 Section 3: Freeze the Footprint. The Revised Cost Savings plan established the requirement for footprint reduction both in NCR and nationally; it established an FY 2012 office and warehouse baseline, the DHS three-year plan, and our long-term space reduction plan. In May 2014, DHS completed the DHS Freeze the Footprint Annual Agency Evaluation, demonstrating compliance with Freeze the Footprint Mandate. DHS projects a net decrease of 114,232 square feet in its FY 2012 office and warehouse baseline by the end of

FY 2015. This reduction represents a 0.23% decrease in the Agency FY 2012 baseline, and reflects full compliance with the Freeze the Footprint mandate.

Looking forward, these reports indicate that the ten year growth in the DHS footprint will modestly taper in in the short-term. However the five year opportunity created by lease expirations will build momentum towards significant future footprint reductions as a result of the Department's 150-square foot per person goal.

Field Location Strategy

The Department's top ten office locations contain a total of more than of 7 million square feet. We are developing an analytical framework to assess these locations for lease compression, consolidation and cost reduction opportunities; in cooperation with the components and their mission needs. Real estate reduction strategies for these geographic concentrations of DHS office occupancies will be a focus for our FY 2015 work plan. We will apply lessons learned and develop a plan for implementing our space reduction strategy from a distance. Recently, my office completed a NCR ten-year outlook indicating potential for increased space utilization for NCR HQ. Using the lessons learned in the NCR, we will begin planning for the first non-NCR top-ten office location – New York City. New York City was chosen not only because of its top-ten rating, but also due to its proximity to Washington, D.C., which will allow for onsite collaboration and education of field organizations. Another DHS top-ten location is Miami. DHS previously reviewed the Miami market for co-location opportunities and confirmed that mission must drive real property decisions. The importance of requirements development cannot be overstated. Miami will be kept in the queue for further analysis at the appropriate time.

Closing

DHS will continue to aggressively pursue real property strategies in partnership with GSA that leverage Departmental efforts to exceed Freeze the Footprint objectives. Our ultimate goal remains to support the DHS mission with efficiently designed space for the way we work today, without sacrificing mission effectiveness for our employees on the front line of homeland security.