CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 8, 2011

H.R. 1734
Civilian Property Realignment Act

As ordered reported by the House Committee on Transportation and Infrastructure on October 13, 2011

SUMMARY

H.R. 1734 would establish the Civilian Property Realignment Commission (CPRC) to better manage federal buildings and facilities. In addition to giving the commission broad new authorities to consolidate, dispose of, or sell some government properties, the bill would require the commission to sell over the next year at least five civilian facilities that have a combined estimated fair market value of at least $500 million.

The legislation also would direct the General Services Administration (GSA) to:

- Transfer the Washington, D.C., headquarters building of the Federal Trade Commission (FTC) to the National Gallery of Art (NGA) and move FTC offices to a privately owned building that has already been leased by the federal government;

- Enter into agreements with the National Women's History Museum (a private corporation) to sell to the museum a specific parcel of federal land;

- Study the possible sale of specific portions of the Department of Energy's (DOE's) headquarters building in Washington, D.C., and to complete that sale if GSA determines DOE offices could be relocated while still allowing for a net gain to the government of at least $200 million; and

- Sell certain property that the agency acquired to build a federal courthouse in Los Angeles, California, and terminate the courthouse project.

CBO estimates that enacting H.R. 1734 would result in direct spending savings of $565 million over the 2012-2016 period and $595 million over the 2012-2021 period, primarily from ending the courthouse project. Enacting H.R. 1734 would not affect revenues. Because the legislation would affect direct spending, pay-as-you-go procedures apply.

In addition, CBO estimates that implementing the bill would add almost $200 million to discretionary spending over the 2012-2016 period, assuming appropriation of the necessary funds, primarily for the operations and functions of the new commission. After 2016, the need for discretionary funds to operate and maintain certain federal buildings and facilities could be reduced if the commission is successful in carrying out its mission to better manage federal property.

H.R. 1734 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1734 over the 2012-2016 period is shown in the following table. The costs of this legislation fall within all budget functions that contain facilities and properties other than 050 (national defense).

	By Fiscal Year, in Millions of Dollars					
	2012	2013	2014	2015	2016	2012-2016
CHANGES IN DIRECT SPENDING						
Sale of High-Value Federal Assets [a]						
Estimated Budget Authority	0	-129	-129	52	42	-164
Estimated Outlays	0	-129	-129	52	42	-164
Sale of Property to the Women's History Museum						
Estimated Budget Authority	0	0	-50	0	0	-50
Estimated Outlays	0	0	-50	0	0	-50
Sale of the Cotton Annex						
Estimated Budget Authority	0	-100	0	0	0	-100
Estimated Outlays	0	-100	0	0	0	-100
Terminate Los Angeles Courthouse Project [b]						
Estimated Budget Authority	0	0	-20	0	0	-20
Estimated Outlays	0	-15	-53	-73	-110	-251
Total Changes [c]						
Estimated Budget Authority	0	-229	-199	52	42	-334
Estimated Outlays	0	-244	-232	-21	-68	-565

Continued

	By Fiscal Year, in Millions of Dollars					
	2012	2013	2014	2015	2016	2012-2016
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Biannual CPRC Recommendations						
Estimated Authorization Level	97	15	15	15	15	157
Estimated Outlays	39	41	39	19	19	157
Transfer FTC Building to NGA						
Estimated Authorization Level	8	40	7	-7	-7	41
Estimated Outlays	8	40	7	-7	-7	41
Total Changes						
Estimated Authorization Level	105	55	22	8	8	198
Estimated Outlays	47	81	46	12	12	198

Note: CPRC = Civilian Property Realignment Commission; FTC = Federal Trade Commission; NGA = National Gallery of Art.

a. Provisions to sell high-value federal assets would reduce direct spending by about $60 million over the 2012-2021 period, CBO estimates.

b. CBO estimates that ending the courthouse project and selling the building site would reduce direct spending by $386 million over the next 10 years.

c. Over the 2012-2021 period, CBO estimates that enacting H.R. 1734 would reduce direct spending by $595 million.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted in fiscal year 2012, that the funds authorized to be appropriated to the commission will be provided, and that spending will follow historical patterns for similar management efforts. This cost estimate is based on information from the Federal Real Property Inventory database that is maintained by GSA, on other specific information provided by GSA and other agencies that manage federal properties, and on budgetary information reported by the Department of Defense (DoD) regarding its experiences with the Base Realignment and Closure (BRAC) initiative begun in 1988.

Sections 1 through 22 of the legislation would create the CPRC and establish its authorities and responsibilities; the remaining sections would direct GSA to undertake actions regarding specific properties in Washington, D.C., and Los Angeles, California. CBO's estimate of the impact those provisions would have on direct spending and spending that is subject to appropriation are described below.

Civilian Property and Realignment Commission

H.R. 1734 would establish an independent commission, similar to the commission that implemented the BRAC process, with the aim of better managing the inventory of federal civilian real property. Following procedures specified in the bill, including getting input from GSA and other federal agencies, the commission would make recommendations to the President for selling, exchanging, consolidating, or redeveloping federal property. If approved, those recommendations would be implemented unless the Congress enacted legislation to disapprove them. Under the bill, the eight-member CPRC would terminate after six years.

H.R. 1734 would specify two major objectives for the CPRC. First, within one year of the date of the legislation's enactment, section 12 would require the commission to identify and recommend the sale of a minimum of five high-value federal properties with an estimated total fair market value of at least $500 million. CBO estimates that auctioning high-value properties as specified in the bill would result in additional net budgetary savings of $164 million over the 2013-2016 period and $60 million over the 2013-2021 period.

Second, the legislation would require the CPRC to make biannual recommendations of property that could be sold, disposed of, transferred, exchanged, consolidated, reconfigured, redeveloped, or used to co-locate agency operations in order to improve the cost-effectiveness of managing the inventory of civilian real property.

CBO estimates that implementing those recommendations would cost $157 million over the 2012-2016 period, assuming appropriation of the necessary amounts. Those costs include: $20 million that would be specifically authorized to be appropriated to cover the CPRC's expenses and $62 million for the proposed Asset Proceeds and Space Administration Fund, which would be used to pay the upfront costs of reorganizing agency operations. The estimated cost also includes $15 million annually for other federal agencies to support the CPRC's work.

Direct Spending Savings from Sale of High-Value Federal Assets. H.R. 1734 would require the CPRC to identify and recommend for sale a minimum of five federal properties with a combined market value of $500 million. The properties that might be identified for sale are not specified, and CBO has no information about which properties would ultimately be chosen. Under the bill, they could not be excess or surplus to the government's needs and would have to be sold in just over one year. Agencies would be relocated after the sale of each facility using sale proceeds to cover those costs, with private purchasers taking possession some time later. Under H.R. 1734, 40 percent of the proceeds from those sales could be spent by the CPRC to cover costs associated with implementing its recommendations.

Based on information from private developers, CBO expects that some private purchasers would be unlikely to pay the full fair-market price for properties if they would have to wait months or years before taking possession of them. However, while time-consuming, this process—under which valuable government assets are offered for sale and then a portion of the proceeds are used to pay the cost of rearranging government operations before the new owner can take control of the asset—has been used before. For example, portions of the electromagnetic spectrum used for communications by DoD and other federal agencies have been sold to private-sector users using a similar process. Those purchasers have agreed to delay using those portions of the spectrum until federal agencies can acquire new communications equipment to adjust their use of the spectrum.[1]

Three factors would determine the net savings from the sale of the assets required under H.R. 1734:

- First, because private owners could not take immediate possession of the federal buildings they purchase, CBO expects offers to buy those buildings would be discounted by around 20 percent—or $100 million on properties with a market value of $500 million;

- Second, based on information from GSA and the Office of Management and Budget about the costs of government real estate transactions and relocating federal operations to new or renovated facilities, we estimate that about three-quarters—or $300 million—of the sales proceeds would be absorbed by relocation costs, direct costs incurred by GSA or the landholding agencies, and real estate commissions; and

- Third, under the legislation, of the remaining proceeds—$100 million—40 percent could be spent by the commission, without further appropriation, on other activities, and the remainder—about $60 million—would be deposited into the Treasury.

The amount of proceeds could vary significantly from this estimate, depending on the particular properties identified by the CPRC and the method chosen to relocate government operations.[2]

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1. This funding process was outlined in the Commercial Spectrum Enhancement Act, Public Law 108-94.

2. Although not required by the legislation, this estimate assumes that the high-value properties identified by the CPRC would be sold at auction to the highest bidder and that whatever properties are sold would be redeveloped for nonfederal use. If the properties were sold through arranged sales to private developers with the intent of entering into agreements with those developers to lease properties after improvements are made, the budgetary impact would probably be a cost and not a savings. Such arrangements are sometimes used by federal agencies under current law as an alternative way to finance the construction of improvements and enhancements to federal properties. Typically, such leasing agreements are more costly than seeking appropriated funds to finance such improvements.

Discretionary Spending for Developing Biannual CPRC Recommendations. During its six-year term, the CPRC would work with GSA and other civilian agencies that have authority to manage real property to develop lists of properties that could be sold, disposed of, transferred, exchanged, consolidated, reconfigured, redeveloped, or used to co-locate agency operations. The bill would authorize the appropriation of $82 million for those purposes, and CBO estimates that federal agencies would need another $75 million over the next five years to help the commission develop recommendations to improve the management of federal properties, resulting in a total discretionary cost of $157 million over the next five years.

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 has reported that operation and maintenance costs typically account for between 60 percent and 85 percent of the lifetime costs of owning a building.[3] Some of those amounts would be eliminated even if the proceeds from selling or transferring a particular property were negligible.

In 2009, government agencies, including DoD, reported that they spent about $1.7 billion to operate about 45,000 underutilized federal buildings and about $0.3 billion to operate about 10,000 buildings classified as excess.[4] Some of those buildings are only slightly underutilized, and some of the space characterized as underutilized is not readily usable. Still, restructuring building occupancy to increase utilization of some facilities so that others could be disposed of and disposing of excess properties would eliminate some annual operating costs and thus reduce future spending if appropriations were reduced by corresponding amounts. However, most of such savings would have to come from consolidating existing operations and disposing of buildings that are currently being used.

Over the 2012-2016 period, however, CBO does not expect that transactions undertaken as a result of the CPRC's recommendations would result in any significant net savings in annual operating costs for federal civilian facilities. Prior experience in this area—particularly DoD's experience with BRAC—suggests that efforts to reduce costs by increasing the efficiency of property use typically require significant spending up front to rebuild or relocate facilities before savings can be realized. Those savings would take the form of reduced need for annual appropriations to operate federal facilities. For BRAC, those upfront costs were covered primarily by increases in annual appropriations. Information from DoD indicates that the first four rounds of BRAC base closings had a net cost of $22 billion over 10 years.[5]

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3. Government Accountability Office, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue,* GAO-11-318SP (March 2011), p. 222, http://gao.gov/new.items/d11318sp.pdf.

4. The Federal Real Property Council, *FY 2009 Federal Real Property Statistics* (September 2010), p.8.

5. DoD budget information indicates that the most recent BRAC round (2005) had a five-year net cost of about $30 billion and an estimated ten-year net cost of almost $20 billion. 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 average of less than $50 million a year.

Without similar upfront resources or some other way to implement its recommendations, CBO expects that the CPRC would struggle to make a measurable change in the long-term costs of operating and maintaining federal civilian properties. In CBO's judgment, the opportunity to generate upfront resources from the ongoing sale of excess federal properties for substantial sums is not supported by the historical record of such sales.[6] Although the federal government sells property on an ongoing basis, the net budgetary impact is quite small. Net proceeds from the sale of civilian real property varies from year to year but has totaled about $70 million over the past five years.[7] Opportunities to sell more valuable properties that are not considered excess to the federal government's needs exist. However, as explained above under the discussion on high-value property sales, the net savings from such transactions would be diminished by federal rebuilding or relocation costs.

Directives to GSA Regarding Properties in Washington, D.C., and Los Angeles

Enacting the remaining sections of H.R. 1734 would yield direct spending savings of almost $520 million over the 2012-2021 period, CBO estimates. Assuming appropriation of the necessary amounts, CBO also estimates that implementing those sections would cost about $40 million in discretionary funds over the next five years. Specifically, those provisions would require GSA to:

- Transfer the Washington, D.C., headquarters building of the Federal Trade Commission to the National Gallery of Art and move FTC offices to a privately owned building that has already been leased by the federal government;

- Enter into agreements with the National Women's History Museum (a private corporation) to sell to the museum a specific parcel of federal land;

- Study the possible sale of specific portions of the Department of Energy's headquarters building in Washington, D.C., and to complete that transaction if GSA determines offices currently occupying that space could be relocated while allowing for a net gain to the government of $200 million or more; and

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6. According to information from GSA, the government has engaged in almost 1,400 transactions involving disposal of civilian property over the past 10 years in some way other than destruction. Of those, about 125 properties have been transferred to another federal agency; almost 235 have been made available through public benefit conveyances for nominal amounts; 84 were conveyed through negotiated sales to state and local governments; and the majority of properties, almost 950, were disposed of through public sale.

7. Many of the largest civilian landholding agencies (excluding the Department of the Interior), such as the Departments of Veterans Affairs, the Treasury, and Energy, as well as GSA, already have authorities under current law to enter into enhanced-use leases with the private sector, which often prove more lucrative than sales. Those arrangements allow agencies to lease underused land and facilities for cash or in-kind services; the agencies thereby secure private financing—outside the appropriations process—for construction or renovations of buildings, power plants, and other infrastructure for the agencies' use.

- Sell certain property that the agency acquired to build a federal courthouse in Los Angeles, California, and terminate the courthouse project.

Transfer FTC building to NGA. H.R. 1734 would direct GSA to transfer the FTC headquarters building to the NGA by December 31, 2012. The building would be renamed the North Building of the National Gallery of Art. Under this bill, after the transfer, employees of the FTC Headquarters building would be relocated to leased space in a privately owned building (Constitution Center, located at 400 7th Street, S.W., in Washington, D.C.).

Assuming appropriation of the necessary funds, CBO estimates that implementing this provision would cost $41 million over the 2012-2016 period, mostly for relocating the FTC. That estimate is net of savings from terminating certain NGA office leases and reflects the assumption that the FTC would occupy office space that is currently being leased by the Securities and Exchange Commission (SEC) and that would otherwise remain vacant for at least the next year. The SEC and GSA are currently considering alternative uses for the space, which the SEC leased but no longer requires. It is possible that the lease for the portion of Constitution Center affected by this bill will be terminated or used by another federal agency before the FTC could be relocated under H.R. 1734 late in calendar year 2012. If Constitution Center were not available, GSA would need to build or lease space for the agency.

National Gallery of Art. The NGA is housed primarily in two buildings on the Mall (the West and East Buildings) that were presented as gifts to the United States from private donors in 1941 and 1978. The NGA currently has two leases for office space and a service agreement to store artwork in other buildings. According to the NGA, more space will be needed in the future to accommodate additional administrative staff and to display and store additional artwork.

Under H.R. 1734, CBO expects that the NGA would move some of its administrative staff into the FTC building in 2013 and begin to redesign the building's interior for its use. We estimate that the NGA would spend about $20 million over the 2015-2016 period, primarily for moving costs, initial design work, and office equipment. Those costs would be more than offset by savings from ending two of the NGA's leases for administrative office space. Under current law, those leases will cost about $7 million over the 2014-2016 period and could be terminated if the NGA were able to use the FTC building for administrative offices without significant modifications. On balance, CBO estimates that net savings to the NGA would total about $2 million over the next five years, assuming future appropriations to the agency are reduced because of its lower operating costs under the bill.

The bill specifies that, after transfer of the building from the FTC to the NGA, all initial costs of remodeling, renovating, and reconstructing it would be funded by private donations. The NGA estimates that it would cost at least $150 million to modify the structure, mostly to create new areas to display art; those costs do not include other possible improvements to the area, such as a tunnel from the new facility to the East and West Buildings.

Although H.R. 1734 states that initial modification costs may not come from appropriated funds, it is unclear whether the NGA could attract sufficient donations from private individuals to cover those costs. Since the original buildings were donated to the NGA, all renovations and repairs to those facilities have been completed with appropriated funds. For example, the NGA is midway through a large renovation project that was begun in 1999 and has involved more than $140 million worth of improvements, primarily to the West Building. The NGA is also working on an $85 million project to repair the exterior marble veneer of the East Building. Both projects are being undertaken using appropriated funds.

Federal Trade Commission. After the transfer of the FTC headquarters building to the National Gallery of Art, H.R. 1734 would direct GSA to relocate FTC employees from the current headquarters building to leased space at a specified location (a portion of Constitution Center). That location is currently under a 10-year lease entered into by the Securities and Exchange Commission in July 2010. However, the SEC has no plans to use the space that the FTC would occupy.

According to the FTC, the commission's headquarters building houses more than 700 employees, contractors, and children (in a day care center). Based on information from GSA and the FTC, CBO estimates that reconfiguring the space, relocating the employees from the FTC headquarters to Constitution Center, and installing furniture, computers, and telecommunications equipment would cost $42 million over the 2012-2016 period, assuming appropriation of the necessary amounts.

After the current 10-year lease for space in Constitution Center expires, the FTC headquarters employees would still need office space. At that time, GSA would need to build a new headquarters facility or enter into a long-term lease of space in Constitution Center or another privately owned facility.

Sale of Property to Women's History Museum. Section 23 would authorize the sale of federal property near the intersection of 12th Street and Independence Avenue, S.W., in Washington, D.C., to the Women's History Museum Corporation. (Section 25 would also allow the Women's Museum right of first refusal on the western portion of the Forrestal building on Independence Avenue in Washington, D.C.) The legislation would direct GSA to complete the conveyance within three years. Under the bill, no federal funds could be used to purchase the site or to design and construct a museum on the site; the property would revert to the federal government if the corporation uses it for any purpose other than a museum or fails to commence work on the museum within five years after enactment of H.R. 1734. Net proceeds from the sale would be deposited into the Federal Buildings Fund, and spending of those funds would be subject to future appropriation.

GSA currently controls the property near the intersection of 12th Street and Independence Avenue, S.W., which consists primarily of a small parking lot; the agency reports that it has no plans to declare the property excess to its needs. Thus, under current law, CBO does not expect that the property would be conveyed for a public purpose or sold over the next 10 years.

An assessment of the property's value has not yet been completed. That assessment would consider a variety of factors, including the property's highest and best use, the presence of any hazardous substances or zoning restrictions on the site, and a final land survey. Based on recent property sales in the District of Columbia, CBO estimates that net proceeds from this sale would total about $50 million in 2014. That sale would be recorded in the budget as a reduction in direct spending of $50 million in 2014.

Consider Sale of a Portion of the Department of Energy Headquarters Building. Section 25 would require GSA to determine whether it could sell most of the Forrestal Building (DOE headquarters located on Independence Avenue in Washington, D.C.) and build a new federally owned facility to house the relocated DOE employees while still realizing estimated net proceeds of at least $200 million from the sale. If GSA believes such a transaction were possible, the Women's History Museum would have the right of first refusal to purchase a specified portion of the Forrestal building.

If the Forrestal Building is sold, the bill would prohibit the federal government from leasing back any portion of the building, including during the period of time required to design and construct the new DOE facility and relocate the agency. Based on information from GSA, the National Capitol Planning Commission, and private developers, CBO expects that proceeds from the sale would be significantly diminished by the timing and special financing that would be required for the sale because of that prohibition and the need to expend sales proceeds to relocate the agency. Thus, CBO estimates that net receipts would be less than $200 million and therefore that GSA would not sell the Forrestal property.

Sale of the Cotton Annex. If the Forrestal property was not sold, the legislation would allow the Cotton Annex to be sold; the Cotton Annex is a building roughly bounded by 12th Street, Independence Avenue, Maryland Avenue, the Forrestal Building, and L'Enfant Plaza in southwest Washington, D.C. An assessment of the value of the Cotton Annex property has not been completed, but based on recent property sales in Washington, CBO expects that proceeds would probably be around $100 million.[8] Under

8. That estimate reflects the assumption that the Cotton Annex would be sold at public auction for cash and that the government would not lease back the property. If the property is sold to the private sector and leased back to the government, the budget might record a cost from the sale rather than a savings, depending on the terms of the lease.

the bill, those proceeds from the sale would be deposited into the Federal Buildings Fund, and spending of those funds would be subject to future appropriation. For this estimate, CBO assumes that the property would be sold in 2013.

Terminate the Los Angeles Courthouse Project. In 2000, the Congress authorized GSA to begin designing a new courthouse in downtown Los Angeles and has appropriated about $400 million for the project. GSA spent $34 million to design the courthouse, purchase a building site, and prepare the site. Under current law, CBO expects construction will begin in fiscal year 2013. Section 26 would prohibit GSA from using already appropriated funds to construct the new courthouse; thus, CBO estimates that enacting this provision would reduce spending by $366 million (the appropriated amount that remains unspent) over the 2014-2019 period. (Because that savings would result from enactment of this legislation, it would be recorded as a reduction in direct spending for pay-as-you-go purposes.)

In addition, the section would require GSA to sell the Los Angeles building site at fair market value. CBO estimates that the proceeds from the sale of the property would be about $20 million in fiscal 2014. Net proceeds from the sale would be deposited into the Federal Buildings Fund, and spending of those proceeds would be subject to future appropriation.

CBO estimates that total savings from ending the courthouse project and selling the site would be $386 million over the 2012-2021 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table. Enacting the legislation would have no effect on revenues.

CBO Estimate of the Statutory Pay-As-You-Go Effects for H.R. 1734, the Civilian Property Realignment Act, ordered reported on October 13, 2011

	By Fiscal Year, in Millions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
	NET INCREASE OR DECREASE (-) IN THE DEFICIT											
Statutory Pay-As-You-Go Impact	0	-244	-232	-21	-68	-51	3	18	0	0	-565	-595

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1734 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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